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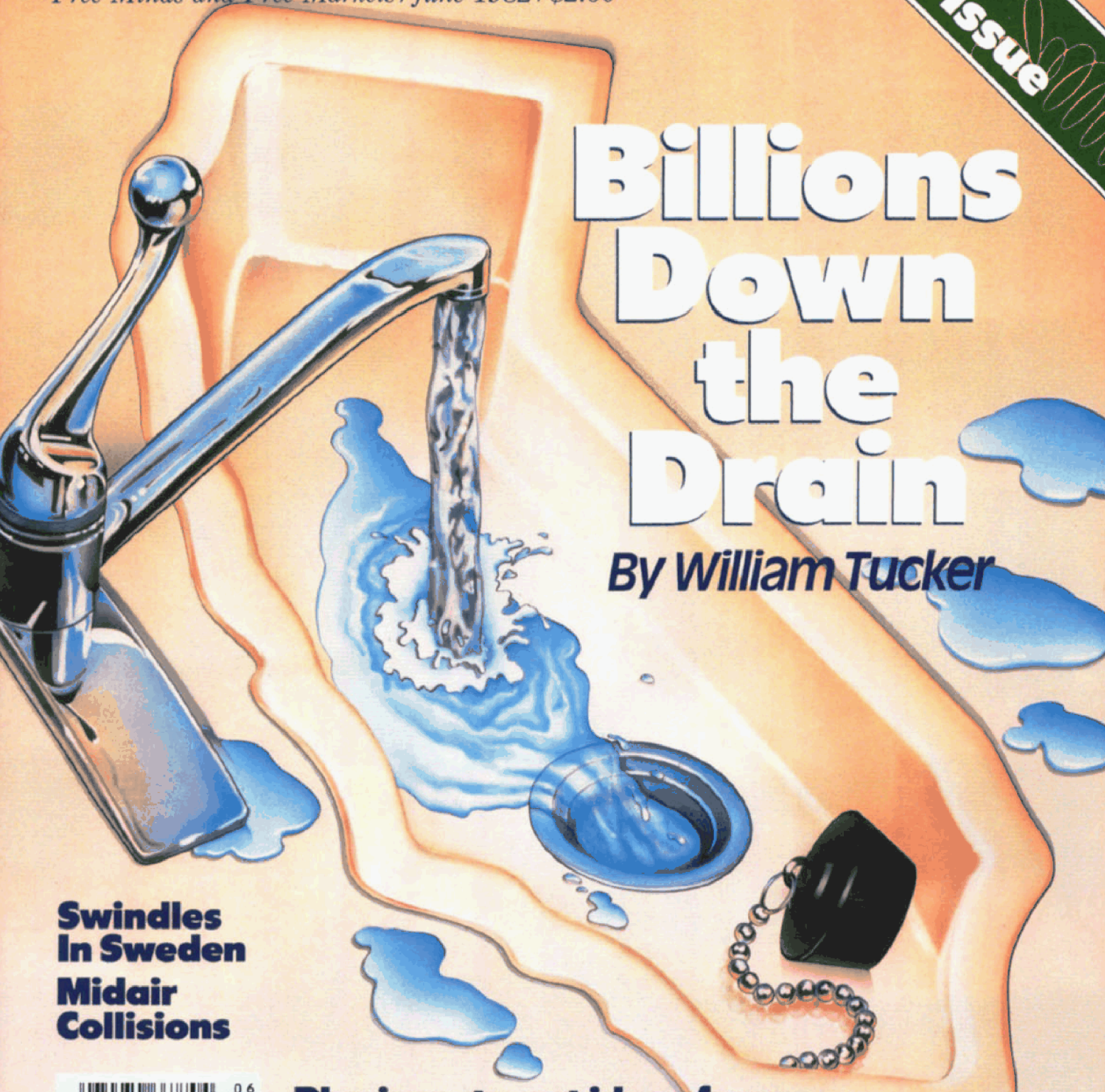
Free Minds and Free Markets / June 1982 / $2.00

Annual Financial Issue



Billions Down the Drain

By William Tucker

Swindles In Sweden

Midair Collisions

Plus investment ideas from Doug Casey, George Gilder, Franz Pick, and others

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Free Minds and Free Markets

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Cover illustration by Bette Levine

REASON (ISSN 0048-6906) is published monthly by the Reason Foundation, 1018 Garden St., Santa Barbara, CA. 93101. Second class postage paid at Santa Barbara and additional mailing offices. **Postmaster:** send address changes to REASON, Box 28897, San Diego, CA 92128.

CORRESPONDENCE: Send *new subscriptions* and *address changes* (include address label and new address) to REASON, Box 28897, San Diego, CA 92128. (714) 485-6535. Allow six weeks. Send *manuscripts* (for return, include SASE), *letters*, and *classified ad orders* (with payment) to REASON, Box 40105, Santa Barbara, CA 93103. (805) 963-5993.

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AYN RAND

Her historic New Orleans appearance – now on audio and video cassettes!

The highlight of the recent Eighth Annual New Orleans investment conference, sponsored by the National Committee for Monetary Reform, was a rare appearance by famed novelist/philosopher Ayn Rand.

Ayn Rand's philosophy of Objectivism, and her best-selling novels *The Fountainhead* and *Atlas Shrugged,* have earned her an enthusiastic worldwide following. Outspoken and controversial, she is today's foremost advocate of reason, capitalism, individualism and self-interest.

An audience of 3000 – the largest she has ever addressed – gave Ayn Rand two standing ovations and interrupted her presentation numerous times with spontaneous applause.

Her talk, entitled "The Sanction of the Victims," focuses on America's businessmen and their uncritical support of collectivist forces and ideas devoted to their destruction. In an extensive question period, she responded to audience members on such topics as President Reagan, the Moral Majority, the Polish crisis, the Equal Rights Amendment, books, television and more.

Ayn Rand chose this occasion to make a dramatic announcement: she plans to write and produce a nine-hour TV mini-series based on her monumental novel *Atlas Shrugged.*

In recent years, Ayn Rand has made only a handful of public appearances. Microphones and cameras were on the scene to record this historic event on both audio and video tape. Here is an unusual opportunity to hear – and see – Ayn Rand's important presentation as it happened, "live" in New Orleans. Whether you choose audio or video tape, you'll have a permanent record to play and re-play as often as you wish.

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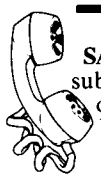

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ADVERTISING: For display advertising contact Robert Bakhaus, 1018 Garden St., Santa Barbara, CA 93101. (805) 963-5993. Spectrum Network Advertising (212) 838-4120. For classified ads, see Classified page, this issue.

SUBSCRIPTIONS: Subscribers are members of the Reason Foundation. Membership is $19.50 per year. Outside North America add $8/year for surface; $36/year airmail. Payment from Canada: US dollar postal money orders only. Send orders to REASON, Box 28897, San Diego, CA 92128.

BACK ISSUES: Obtain list from REASON Back Issues, Box 40105, Santa Barbara, CA 93103. Vols. 1-4 are available on microfilm from University of Southern California Library Micrographics Dept., University Park, Los Angeles, CA 90007. Vols. 5 and up are available from Xerox University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106. Indexed in *America: History and Life; Historical Abstracts; Public Affairs Information Services Bulletin;* and *Public Issues Index.*

NOTEs

The impact of REASON articles continues to grow. Our March cover story on entrepreneurship at Maine State Prison was featured in *Business Week*'s Economic Diary (Mar. 22). Two of the participants in that experiment—ex-warden Richard Oliver and novelty king Jack Harrelson—were guests on WKIS radio in Orlando, Florida, the first week of March, and the author of the story, Boston University law student Jeffrey Shedd, was interviewed on WIS radio in Columbia, South Carolina, on March 16.

Kelly Ross's "Vanishing Farmland?" has also attracted notice. Ross was interviewed on WIS radio on March 19. Kenneth Scheibel discussed the article in his "Washington Farm Beat" column of March 1, and the Harrisburg (Penna.) *Evening News* ran an op-ed adaptation of the article on March 12. Ross also presented a paper based on his article at a conference on Agricultural Land Preservation sponsored by the Center for Political Economy and Natural Resources at Montana State University.

A shortened version of our February article by Laurence Beilenson and Kevin Lynch, "Should We Spill Blood over Oil?" has been printed by a number of newspapers. Jack Anderson quoted from Steve Hanke's March article, "Privatize Those Lands!" in his March 19 syndicated column. Gaines Smith's "Stormy Weatherization" (Feb.) was the subject of articles in the Eugene (Oreg.) *Register-Guard* and the *Willamette Valley Observer.*

Even our October 1981 cover story on electric utility competition keeps attracting notice. It was written up in the January/February issue of *Regulation* and was cited in an editorial in the Orange County *Register* in March. It was also one of the sources used by Susan Lee to prepare an op-ed piece on electric utility deregulation in the *Wall Street Journal* (Mar. 23). Subsequently, on March 31, the *Journal* published my letter adding more details on the existence of competing electric companies in 23 cities.

—R. P.

Felix Morley, R.I.P.

Felix Morley died on March 13 at age 88. He was remarkably productive to his last days despite having been crippled with arthritis for two decades. His last article for REASON, "Facing Foreign Realities," appeared in the March issue.

He grew up in Baltimore, where his father taught mathematics at Johns Hopkins University. He and his brothers—Frank, the editor, and Christopher, the author—are a triad awaiting a brilliant joint biography.

Morley was a Rhodes scholar at Oxford and served in the Friends ambulance corps in France during World War I. After the war he became a reporter for the Sun Papers (one of his most interesting works was *Our Far Eastern Assignment* [1926], about his visit to Japan, China, and the Philippines when the Communist Chinese movement was beginning to be evident). Morley was the head of the American League of Nations Association office in Geneva, a scholar at the Brookings Institution, and author of *The Society of Nations* (1932). He won a Pulitzer prize for his editorials in the *Washington Post* but left the paper when his critiques of American moves to get into World War II did not meet with the publisher's inclinations.

After serving as president of Haverford College, he became a founding editor of *Human Events* but departed when he differed with the other editors on criticism of America's role in the Cold War. Thereafter, he was engaged in organizing research for the early American Enterprise Institute, wrote for *Nation's Business,* and was commentator on the Sunoco Three Star Extra radio daily news program. He wrote *The Power in the People* (1949), *The Foreign Policy of the United States* (1951), and *Freedom and Federalism* (1959) and edited several volumes.

During the last decades of his life, Felix Morley worked with the William Volker Fund, the Institute for Humane Studies, and the Liberty Fund. A few years ago, an article about him described him as a Commonwealthman, a true constitutionalist. With Felix's passing, we are down to a corporal's guard.

—Leonard P. Liggio, Institute for Humane Studies

THE GREATER DEPRESSION HAS BEGUN...

I won't mince words with you, just as I never hedge or waffle in my **Investing in Crisis** monthly advisory. The U.S. and the world are now in the early stages of what may someday be known as The Greater Depression. *It will be known as the Greater Depression* because it could well make the unpleasantness of the 1930's look like a minor technical correction.

It's the nature of a depression that most people's standard of living declines. But you, as an individual, don't have to be "most people". To the contrary: No matter how catastrophic the financial collapse we're about to go through, all the real wealth in the world — the houses, farms, mines and factories among other things — will still be there. They won't collapse just because their present owners fall on hard times. Rather, just their ownership will change.

The Greater Depression Can Make You Very Rich

The new owners will be those who position themselves properly now. *A whole new class of millionaires will be made during the 1980's* as a result. And for them, the Greater Depression will prove to be a good thing.

If you've read my books — **Strategic Investing, Crisis Investing,** and **The International Man** — you know why I believe that the inflation-recession, boom-bust cycles of the past 50 years are about to come to an *explosive* end. In my monthly investment advisory, I tell you not only *how to prepare* for it, but *how to profit* from it.

The Right Investments

Investing In Crisis will guide you to the *right* investments in the Greater Depression. Investments like these:

- **Low risk, high potential speculations** — created by government intervention in the economy. Gold and silver, which were price controlled for decades, are perhaps the two best-known examples of this. But there are new ones each year. The **Investing In Crisis** advisory attempts to pinpoint them for its readers.

- **Commodities** — Few people are aware that today most commodities are cheaper, in real terms, than they were in 1971, before the huge bull market that started then. One special commodity is now 40% cheaper, even though the marketplace is more volatile now than ever before.

- **Stocks** — There are over 40,000 stocks publicly traded in the U.S. The **Investing In Crisis** advisory enables you to distinguish the forest from the trees, selecting only those stocks I feel are special situations with exceptional potential. Many are little known stocks which few other advisories are even aware of.

- **Short Sales** — There's a time to sell as well as a time to buy. When stocks become overpriced, the **Investing In Crisis** advisory attempts to pick those most likely to plummet, so subscribers are able to make profits in both bull and bear markets.

- **Foreign Markets** — There are over fifty foreign countries with active stock markets. Often, because of wars, devaluations, and revolutions — as well as spectacular inflationary booms — they present great opportunities to buy and sell.

- **Options** — The **Investing In Crisis** advisory monitors the stock option market closely — both as a buyer and a seller. Although risky, annual returns of well over 100% are attainable, and you are provided with the information you need.

- **Exotic Opportunities** — A private island in the South Pacific. Good land in Australia for $1 an acre. An arms factory in Peru. Private Swiss investment accounts. Subscribers find out "how to" and "where to" buy for all of them.

- **Gold** — During the great bull market of the 1970's, gold increased over 20 times in value. Is the market dead? The **Investing in Crisis** advisory monitors gold — as well as gold stocks around the world — from an unusual perspective.

- **Silver** — It increased nearly 770% during the 1970's — then lost over 85% of that increase. What will happen by 1984, and what's the best way to play the market right now?

- **Real Estate** — I've labeled U.S. real estate "the financial graveyard" of the average man. But houses and land will soon be available again at bargain levels. I'll tell you when to buy.

And More...

Every month, as President of International Fund Management, Inc., I write one of the most unique and most valuable investment advisories available today. As a new subscriber to the **Investing in Crisis** advisory, you will *also* receive the *private telephone number* for my weekly updated hotline.

There will be *immense profits* to be made in the Greater Depression. My **Investing in Crisis** advisory letter will show you *where* they are and *how* to use them to *your* advantage. I look forward to helping you make money in the troubled days ahead.

"I don't think America is going out of business, but I do think there's going to be a once-in-a-century financial calamity."

— Doug Casey

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EDITORIAL

Dollar Gas

I first noticed it while on tour in the farm country of Iowa, several weeks ago. At about one out of three gas stations, regular gas was selling for $1.01 per gallon. My *Time* magazine reported 99¢ gas in Texas—and even price wars in Houston. Newspapers and magazines have begun speculating on the demise of OPEC.

It's important that we not let the advent of $1.00 gasoline go unremarked. Little more than a year ago, with gas at about $1.35, pundits were griping that by removing price controls on oil, Ronald Reagan was delivering us into the hands of rapacious oil barons who would soon be ripping us off to the tune of $1.50 or $2.00 a gallon. Yet it never happened.

Why not? Because *the market works*, that's why. The tripling of oil prices from 1978 to 1981 led millions of individuals and corporations to change their behavior. People *chose* small cars, even though gas guzzlers were still available. They insulated their homes, to keep heat and bills from going through the roof. Truckers put air deflectors on their rigs to reduce drag, and factories put in cogeneration plants. As a result, in just those three years, per capita energy use dropped by *20 percent.*

Moreover, the higher prices stimulated the greatest burst of oil exploration in 20 years. By drilling in new areas, companies found huge new fields in places like the Overthrust Belt. Billions are being invested in secondary and tertiary recovery, to extract a large part of the two-thirds of the oil formerly left in the ground because it was too costly to bring to the surface. In May a huge new structure called an Underwater Manifold Center was placed on the North Sea bottom by Royal Dutch/Shell and Exxon. If successful, it will enable oil to be produced at depths of up to 5,000 feet (compared with today's 1,000-foot limit for offshore platforms), thereby opening up an area *the size of Africa.*

All these things have come about not because of government energy programs but in spite of them. Instead of encouraging oil production, government placed a huge new tax on the oil companies. And it created a series of energy bureaucracies that forced the industry to produce heating oil when people needed gasoline and vice versa, and in the face of shortages it attempted to allocate gasoline based on historical patterns of use (meaning that gas stations along interstate highways—where people *used* to be traveling on vacation—got lots, while stations in your hometown—where you stayed because of gasoline shortages—got as little as 70 percent of what they needed).

There are two main lessons we can learn from the "energy crisis" of the 1970s. The first is that we have more to fear from energy bureaucrats than we do from self-styled cartels. OPEC, in fact, was never a true cartel, in that its members never agreed on joint production quotas. By encouraging increased demand for OPEC, rather than domestic, oil—as our bureaucrats did by holding down production of domestic oil and setting up the absurd "entitlements" program that subsidized imports—our government perpetuated the myth of OPEC's control. Only a worldwide recession, with its sharp drop in demand, coupled with the freeing of the US oil market, finally ripped the veil from the sheiks. Over the next few years we'll observe their futile attempts to enforce production quotas as, one after another, the poorer governments resort to selling oil under the table.

The other lesson is the difference between a *political* response and a *market* response to an economic disruption. A market response is diverse, flexible, and decentralized. Millions of people make individual decisions based on continually changing economic information. This information is never perfect, and sometimes they guess wrong—spending so much on a solar heating system, for example, that the payback period is longer than the life of the equipment. But those who guess wrong in the marketplace damage only themselves; others observe and profit from the knowledge.

The political response is to build monuments to yesterday's problems and then maintain them, regardless of changing conditions. One example is the gargantuan Synthetic Fuels Corporation. While private firms like Cities Service, Exxon, Occidental, and Tenneco are canceling synfuel projects left and right, the Synfuels Corp. is rumbling along its preprogrammed way, parceling out some $14 billion of our money. (Applicants include such free enterprisers as former Federal Energy Administrator Frank Zarb and former Energy Research and Development Administration official Robert Fri.) After all, when the synfuels legislation was being drafted, the line on the oil price graphs kept climbing indefinitely—to $40, $50, $60 per barrel. Why let something like the market price get in the way?

The Department of Energy is yet another monument—a $13.7-billion empire that controls the price of natural gas (and some electricity), subsidizes industry by sponsoring research, operates giant dams and utilities (for example, the TVA), issues reams of redundant energy conservation regulations, churns out propaganda—excuse me, information—and relieves the oil companies of the burden of maintaining petroleum reserves. Ronald Reagan's campaign pledge to abolish this dinosaur is about to be translated into a bureaucratic reshuffling that will parcel out nearly all its functions to other agencies, saving only about $1 billion. Yet if all DOE's nondefense functions were actually abolished, we could save more like $7 billion a year.

About the only bright spot in all of this was the president's veto of Congress's bill to give him emergency powers to allocate petroleum products—in other words, to recreate the gas lines of 1973 and 1979. Reagan wisely told the pols thanks, but no thanks, and they failed to override his veto. Yet by leaving the substance of the energy bureaucracies in place, Reagan has made clear that he doesn't really understand the lessons of the energy crisis.

Congress retains its ability to hand out favors via energy regulation and subsidy. You can buy gas now for a dollar. Politicians cost more—but they're still available.

Robert Poole, Jr.

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3HCE

Letters

Inside Story

I am an inmate at the Maine State Prison and was so at the time of the "lockdown" ("Making Good[s] behind Bars," Mar.). I want you to see what I built and sent out incomplete before the lockdown struck. (*A snapshot of a hand-crafted, full-size wooden motorcycle was included with this letter.—Ed.*) I hadn't a chance to totally read your magazine story, but just think, I've won a blue ribbon and some other awards at a local museum with this pastime.

Kevin Paul Fraser
Thomaston, ME

Robbery Is Robbery

IRS Commissioner Egger should research a little further to find the status of tax protesters. (See "Stop This Stealing!" Apr.) It started here in 1770 over a threepence tax on tea. The phrase "taxation is theft" really has official sanction from the High Court: "To lay with one hand the power of government on the property of the citizen, and with the other to bestow it on favored individuals...is none the less robbery because it was done under the forms of law and is called taxation" (Miller 20 Wall 655, 663, 664 [1874]).

Ralph J. Fury
Denver, CO

Offer Poland Liberty

Allow me to offer a dramatic solution to the Polish problem: Take a clue from our own Declaration of Independence and tender an offer to the people of Poland to become citizens of the United States with Poland entering the Union as the 51st state.

Just to refresh your memory, let me quote from Mr. Jefferson's masterpiece: "That whenever any form of government becomes destructive of these ends [life, liberty, and the pursuit of happiness], it is the right of the people to alter or abolish it, and to institute a new government." For many years now we have welcomed to our shores immigrants and refugees from all over the world. Obviously, we cannot accept the world's population into our portion of North America. We do, however, have the potential to assist a people in instituting a new government.

If a government overwhelmingly betrays its people by widespread repression, terrorism, mass arrests, injuries and deaths, that government has in the eyes of civilized man lost the right to govern. In short, such a government should be terminated. How can this be accomplished other than by force of arms? Let this United States take the philosophical initiative. Let us through appropriate legislation tender to the Polish people the offer to change their allegiance to the United States. The decision would be made by secret balloting, an election that the United Nations would be asked to supervise.

Think for a moment how electrifying would be the effect of even the first proposal in Congress for such a Tender of Union. The Polish (and the Russian) government would be furious and probably flabbergasted. But whatever they said and whatever they did short of putting the issue to the UN-supervised vote would simply give them more bad press.

Long before the election, the soldiers and civil servants of Poland would be assured that they too would be welcomed as citizens of the New Poland. Only the organization of the government is to change. New officers are to be elected, but old officers are not to be persecuted.

How would other dictatorships of the world react, knowing that if their people become abused enough, they too might make a plea to be taken into the Union? Would the United Nations have the moral courage to preside over such an election, which would in effect sentence a criminal member-nation to termination? Whatever the outcome, the world would never be the same. A turning point in the evolution of the planet Earth would have been reached.

In those cases of chronic, severe, population-wide violation of basic human rights we have the opportunity, the right, the duty, to bring into the Union a tired, hungry, and huddled mass of humanity and, by means of nothing more substantial than a constitution, regenerate them into a fine and proud state whose people will have the opportunity to pursue their own happiness.

Laurens N. Garlington
San Francisco, CA

Letters sent to REASON (Box 40105, Santa Barbara, CA 93103) will be considered for publication (unless otherwise noted) and may be subject to abridgement or editorial comment.

The Mourning Of Miss Rand

Please tell me Ayn Rand isn't *really* dead. She just went away to Galt's Gulch, right?

Eydie Carter
Los Angeles, CA

We the living...remember her, and we salute a spectacular life that passed out of our reach on March 6, 1982: For her celebrated accomplishments, and in spite of her obvious faults, Ayn Rand meant many more things to us than we can recount to our children and colleagues. Hers was a romantic and tragic journey, from the political wasteland of Russia to a permanent place in our hearts and minds. We owe so much, who seldom can find the heroic in our fellow man. She gave what she had to give, and we pay gladly for the loss we deeply feel.

Michael G. Roberts and
Deborah Schneider
Walnut Creek, CA

The weeks before Ayn Rand's death had been a difficult time for me. I had been trying to get the Oregon news media to pay some attention to my investigatory piece, "Stormy Weatherization" (REASON, Feb.). With few exceptions, I had encountered nothing but people who regarded me with suspicious stares, averted eyes, guilty evasions, and irrelevant questions about my politics.... Still, I went on, day after day, past all the stony expressions and snide snickers of my media colleagues. I kept handing out press releases and kept asking journalists to help me tell my story.

I did it partly because of Ayn Rand. I kept thinking of an article she once wrote called "Don't Let It Go." In that piece, Rand spoke of a "sense of life" that she attributed to Americans. She argued that most Americans have an unusual spirit that supersedes political ideology and makes them unwilling to accept authority, unwilling to defer personal responsibility, and unwilling to believe that life ought not to be at least intelligible if not happy. I didn't expect Oregon journalists to agree with my politics. But I kept look-

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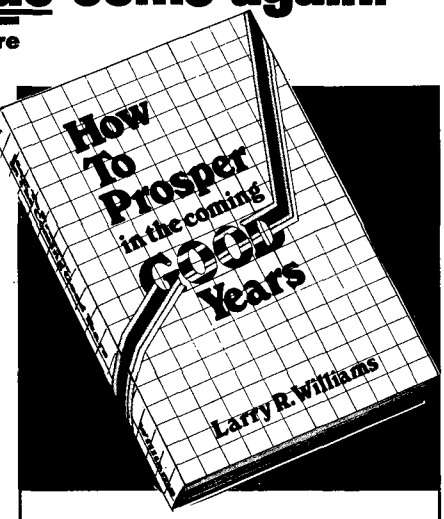

One of the country's most brilliant investment advisors finally reveals the facts.

The best-kept secret in America today is that the nation's economy is now poised at the start of the greatest expansionary upmove in recent history. This powerful upsurge is, for all practical purposes, *inevitable*, based on compelling, but little-known, indicators.

With it will come enormous opportunities for huge profits to all who are canny enough to get their financial strategies in order.

Unfortunately, this same economic upsurge will catch the "hard-times-are-a'-comin' " school of financial advisors completely exposed, and will cost their followers millions. Which camp are *you* in?

The "doom and gloomers" have mistaken a temporary economic turbulence (the Carter years) for the long-term future. And in so doing, they have badly miscalculated the resilience of the American economy and its capacity to change—and change dramatically—overnight.

Three guesses as to who authored this quote: "Blood running in the streets ...lootings of shops and stores...credit ruined, strikes and unemployment... shortages of food...and we are descending into a valley of confusion and darkness." Harry Schultz? Doug Casey? Harry Browne? No, it was George Washington, in a letter written ten years after the signing of the Declaration of Independence. And yet, the decline he bemoaned was swiftly turned around by good management and—as they say—the rest is history. Put simply, the "doom and gloomers" are projecting the future, but still fighting the last war.

Don't be left holding the bag!

This myth-shattering financial book documents *why* a great economic boom is gathering steam right now. Larry Williams offers a detailed, readable guide to the phenomenal financial opportunities available to the forward-looking investor.

How to prosper in the coming GOOD years.

About the author

Larry Williams has been utilizing the renowned "Supply-Demand Formula" throughout his 14 years as a winning investment advisor, and as editor of *Professional Timing Service*. The Supply-Demand Formula has an astonishing 83% accuracy record over the span of 34 years, and for the past 12 months has been 100% accurate in forecasting movement of the Dow Jones Industrial Average, plus 90% accurate on the individual stocks Williams has tracked.

He's also been consistently winning as a commodities trader and advisor since 1970, documented partially in his popular book, *How I Made a Million Dollars Last Year Trading Commodities* (1973).

Why the years just ahead will be good ones.

- The last three tax cuts were in 1964, 1975, and 1976. In all three cases, the DJIA was between 20% and 60% higher one year after the cuts took effect. The 1981 tax cut bill was *much* more far-reaching than any of the three prior cuts.
- Stocks are currently at lower prices, *relative to their value*, than they've been since the late 40's.
- About Federal deficits: actually, 1982's, 1983's, and 1984's Federal expenditures will average 110% of receipts—a *much* more manageable deficit than the 120-125% averages of the '70's. Deficits *sound* big in today's dollar amounts, but the media *hasn't been telling you* the much larger dollar figures for total Federal receipts, relative to the '70's.
- And, of course, much more! If you'd like to believe all this, but aren't quite sure, don't miss this book!

Highlights from the most useful financial book for the 80's:

- The investment vehicle earning 500% to 600% for the author every year for the past 12 years *straight!*
- the one tip in real estate that will save $36,000 for the average couple, and much, much more for the wise.
- how to find the new issues that will skyrocket—because you know who's *backing them* (the book will pay back for you probably many, many times over with this datum alone!)
- how to use Williams' exclusively developed "Percent R" index to time your commodity buys and sells.
- *specifically* how to track and profit from what the big traders are doing in the commodity markets.
- where to get the highest interest rate in the U.S. And *much*, much more!

What the money experts say about Williams:

I enjoyed reading the book and I agree strongly with Larry Williams' optimistic view of the 1980s. Real economic growth, resulting from reduced tax burdens, has inevitably led to increased corporate profits and positive stock market returns historically.
—Arthur B. Laffer

A new investment book with a refreshing tack...written by a flamboyant investor.
—Dan Dorfman

COMPARE THIS TO DOOM and GLOOM!

Here are just a few examples of what many, many individual stocks have done in the last few years. Williams' positive investment strategy, in this case a healthy distribution of the right stocks, has out-performed the doom and gloom hard metals approach—and this in a mixed economy! Get ready for the gains possible in the coming gigantic upmove that Williams identifies, and set your strategies by first reading this profit-rousing book.

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Silver	$6.00/ounce		$11.30/ounce	+ 88.3%
Avantek	11/16/78	1⅛	16	+753%
Compact Video	12/5/78	7½	17⅜	+131%
Evans & Sutherland	9/7/78	3½	28¼	+707%
Zapata Corporation	12/31/78	6½	33⅜	+417%
NBI	12/12/79	6⅝	26½	+300%
ISC Systems	9/16/79	4⅞	13½	+176%

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ing for something like the "sense of life" that Ayn Rand had described. By that I mean I wanted and hoped to find journalists to whom facts mattered, to whom ethics mattered, and to whom reason mattered. Those things mattered to my "sense of life" and I didn't want to let them go.

In the midst of this, I lost Ayn Rand. I must describe her death as a personal loss, even though I never met her in person. And I know that there are many readers of this magazine who feel exactly the same. It is the sense of having lost an irreplacable comrade-in-arms who fought valiantly—not on any physical battlefield, but on this culture's stark and lonely battlefield for the human mind. If you felt like me, you felt grief-stricken whenever you thought of the awful prospect of having to face that battlefield without Ayn Rand.

But don't let her go. Don't let Ayn Rand go. Hold on to her sense of life through whatever future struggles you face in whatever arena of life. And when things are most difficult, think of this: how empty our lives might have been without her.

Gaines Smith
Portland, OR

Selenium Salvo

In a recent letter (Mar.) I expressed concern that certain nutritional claims made by Pearson and Shaw in Health & Welfare are not supported by sufficient scientific research. Specifically, I referred to the statement made in Health & Welfare (Nov. 1981): "researchers estimate that a daily intake of 250 micrograms of selenium would decrease the incidence of heart disease and cancer by 70 percent." In my original communication, I stated that no human deficiency diseases have yet been established or causally attributed to a lack of Se in the diet. The word *human*, however, was editorially deleted from my letter without my permission or knowledge, thus making it appear that I was unfamiliar with animal studies on dietary selenium. My statements, however, are based (contrary to those of P&S) on a *thorough* review of *all the available data* on the role of Se in animal and human nutrition.

The studies cited by P&S as proof for the above statement (Chen, 1981; Greeder and Milner, 1980; Schrauzer, 1974) are interesting and suggestive, but nevertheless provide only *preliminary evidence* which must be weighed and considered in light of all published studies on dietary selenium. For example, P&S fail to consider the numerous studies showing the possible *carcinogenic* potential of selenium (Nelson, 1943; Schrauzer, 1976; Harr, 1976; Schroeder, 1970; Underwood, 1977; Shapiro, 1976). In addition, they make no mention of the well-established *toxicity* potential of selenium (toxicity syndromes of selenium were known to occur in range animals grazing on soil high in Se content long before deficiency diseases were discovered). Further, P&S do not bother to report that a high incidence of dental caries has been observed in children living in areas high in soil Se (Underwood, 1977; Shapiro, 1976; Hadjimarkos, 1961).

As with all trace elements in nutrition, there is often a fine line between intake levels necessary for optimal health and intake levels which will produce toxicity symptoms. Elements such as selenium have reasonably narrow dose-response relationships, so that 90 to 200 micrograms daily may be excellent, but 300 to 500 micrograms may be toxic. As pointed out by Smith and Fitzgerald (1978): "it is difficult to arrive at recommendations for adequate and safe intake levels of trace elements such as selenium in individual nutrition, because of variations in digestion, absorption, distribution, excretion, pharmacodynamics and the presence or absence of other dietary constituents." Furthermore, in contrast to Chen's study, several other investigators have observed no significant correlation between low selenium intake, low Se blood levels in New Zealand residents, and the incidence of cancer, heart disease, liver, or white muscle disease (Griffith and Roberts, 1974; Thompson and Robinson, 1980; Robinson, 1976; Watkinson, 1977).

Greeder and Milner (*Science,* Aug. 15, 1980) indeed showed that Se was efficacious in treating mice with ascites tumors. It should be noted, however, that these researchers used pharmacologic doses of Se equivalent to greater than 100 times that known to produce toxicity in humans. The point here is that utilizing pharmacologically high dosages of Se to *treat* established tumors in rodents, as in Greeder and Milner's study, does not imply that a nutritional Se deficiency will cause cancer or that the recommended daily allowance (200 micrograms) will prevent or decrease the incidence of cancer. Such factors must be considered when interpreting experimental data.... Thus, had P&S read *all* of the literature that a Medlar search would have provided, or even a few advanced texts on human nutrition, they would know that there is not enough evidence to substantiate the above claim for Se in preventing the two leading causes of death.

Pearson & Shaw's primary error is that they ignore an established scientific concept highly important when applying nutritional knowledge, particularly true with trace elements: *it is unwise and imprudent to grasp some facet of preliminary data, such as the possibility of selenium protection against cancer, as justification for irresponsible health claims.* With further clinical, experimental, and epidemiological research, Se may prove to be beneficial in the prevention and/or treatment of cancer or some other pathology, but clearly much more research is needed before such claims can be made. Pearson and Shaw's misrepresentation of scientific data is a perfect example of how "a little knowledge can be a dangerous thing."

Edward V. Avakian, Ph.D.
Santa Barbara, CA

The editors reply: As we explained to Mr. Avakian, we do not edit words out of the middle of sentences of letters to the editor. This was an admittedly unfortunate typographical and proofreading error. We are sorry that he has seen fit nevertheless to cancel his subscription to REASON. For readers who send a self-addressed stamped envelope, we will be happy to provide his list of references, in addition to those mentioned above, on the role of dietary selenium in human health and disease.

Nutrition Dark Ages

The recent letter by Dr. Avakian regarding selenium was shocking—not so much because its nutritionist author was ignorant of human selenium-deficiency diseases (Keshan Disease, Kashin-Beck Disease) or of the numerous studies demonstrating anticarcinogenic effects of high intakes of selenium—but because of the author's evident assumption that an absence of symptomatic deficiency implies that increased doses of a nutrient will produce no physiological effects. This is the sort of lame logic which keeps nutrition in its "four-basic-food-groups" dark ages, when in fact it should be the most dynamic force in preventive medicine.

Mark F. McCarty
La Jolla, CA

FOUR "SECRETS" OF SUCCESS

THEY LAUGHED AT MY "GREAT IDEA"... UNTIL

Many years ago I had a "great idea".

I mentioned my idea to a friend. He laughed. Others laughed too, and I gave up.

But I was not the only one to have the idea. Others had it too. And *they* didn't give up. They acted, and built up businesses which are now worth millions. The moral:

Secret #1: Act on your ideas.

If that doesn't sound like much of a "secret" to you, don't be surprised. It isn't. The truth is there are no secrets to success. Just simple ideas which virtually everyone already knows . . . but almost everyone loses sight of.

Emmerson noted that "in every work of genius we recognize our own discarded thoughts." How many thoughts have you discarded, only to find that someone else picked them up and made a great success of them?

If this has happened to you . . . join the club. And ask yourself a question: what prevented you from following up on the idea?

If you are like most people . . . like me . . . you probably did not go ahead for a variety of reasons. One is lack of information. In my case I believed my idea was a good one, but I didn't know how to proceed. Who to talk to? What to do? How to finance it? How to organize it legally? How could I pay my bills while developing this idea?

Secret #2: Get Good Information.

Trying to succeed without good information is like trying to drive through strange territory without a road map. You're just not likely to get where you are going. You make too many guesses. Too many wrong turns.

But there's good news. Help is on the way. A new publication called *INDEPENDENCE* (I'll explain the title later) can help bring you the information you need to make a success out of your life.

One important thing you'll learn in *INDEPENDENCE* is:

Secret #3: Don't Fear Failure

One of the things which holds many people back is the fear of failure. People are afraid to try something for fear that they will fail. They are afraid that they may not be able to succeed . . . that they may not have "what it takes".

But failure is nothing to fear.

The trick is to learn from failure. To profit from it. To use your own failures and those of others . . . as stepping stones to success.

INDEPENDENCE can help. By telling you about new ideas, new projects, new ways of doing things. About things that work . . . and ones that don't. In a hundred different ways *INDEPENDENCE* will provide you with a blueprint for building your own personal success . . . any way you want.

You see, success doesn't mean the same thing to everyone. You have your definition. I have mine. But in the end, it comes down to this:

Secret #4: Success Is Independence.

No one can make you successful. You must define it and achieve it yourself. And that means being in charge of your own future . . . in short, being independent.

When you are in control of your own destiny, success comes naturally. You do what you want. You follow your own drummer. You succeed.

But being independent isn't easy. It takes hard work, and courage . . . as well as good information.

You'll have to supply the first two of those ingredients yourself. But *INDEPENDENCE* can help supply the information you need.

INDEPENDENCE Is a maverick publication for maverick people. It provides the who, what, where, and how you need in order to help start and maintain an independent lifestyle.

It covers such topics as:
Do-It-Yourself Law and Taxes
Self-Care Health Information
How to Start Your own Business
Investing on a Budget
Working Overseas
Tax Havens
The Underground (Free-Market) Economy
Saving Money On Food, Clothing, And Shelter . . . and much, much more

Each month *INDEPENDENCE* will bring you a wealth of fresh ideas and opportunities. You'll find ways to *save* money . . . and ways to make yourself more independent. *INDEPENDENCE* will provide you with the tools and technology you need to take charge of your own life and realize your own special "success".

SPECIAL CHARTER OFFER

The regular price for *INDEPENDENCE* is $36 annually. But as a special CHARTER offer you may subscribe now at *half price* — and save $18.

For just $18 you'll receive a full year of ideas and opportunities to help you live a more independent and successful life. And you'll also receive . . .

A GUTSY GUARANTEE FROM A GUTSY PUBLICATION

I think you'll find *INDEPENDENCE* well worth the money. In fact, the money-saving ideas and suggestions you'll read should pay your subscription fee many times over.

I'm so confident of this that I'm willing to send you THREE FULL MONTHS OF *INDEPENDENCE* entirely at my risk. If, after reading *INDEPENDENCE* for three months you're not convinced that it is worth every penny of the subscription price you may cancel and receive a complete refund. Promptly.

So, you have absolutely nothing to lose by taking advantage of this special CHARTER OFFER. Even if you decide to cancel, the three issues of *INDEPENDENCE* are yours to keep FREE.

But this offer is made for a limited time only. To take advantage of it, you must act without delay (remember "secret" #1).

Yes, I would like to sample a CHARTER subscription to *INDEPENDENCE*. I understand that I may subscribe at half price (an $18 savings) and that I may cancel after three full months if I choose, and still receive a full refund.

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brickbats

Clean your room! Fix that dripping faucet! Put the screens up! And for the sake of all that's decent, scrape that peeling paint from the window frame! Blondie telling Dagwood how she expects him to spend his day off? Nope. It's the Montgomery (Md.) County Council telling its subjects they had better shape up—or else.

Montgomery County is the home of $50,000-a-year government executives, foreign diplomats, and the elite of suburban Washington. So it's understandable that county leaders are a little miffed about certain dowdy, if not outright slobbish, tendencies among some of the populace. So the "Great Slob Law of 1982" was introduced. The edict says faucets are not allowed to drip, children must not walk through a parent's bedroom to get to the bathroom, and no one, but no one, is allowed to live, sleep, cook, or eat in the cellar of his own home. County inspectors were anxious to swoop down and issue summonses, but jeering householders hooted the 74-page law out of a hearing room while the sponsors retreated and withdrew the measure. Freedom lovers partied and threw peanut shells on the floor, but the forces for neatness and propriety are regrouping for another round.

March was officially declared "Socialist Ethics Month" in the People's Republic of China, and that means no more spitting on the sidewalk, dropping litter, honking car horns, or being surly in public places. This is quite a turnaround for China, where young people had been encouraged during the Cultural Revolution to be rude to older people. "The ruder they acted, the more revolutionary they were considered," said an elderly Peking intellectual. But now a new enlightenment has taken place, and the regulations specify that cars can emit only three toots at a time, with no longer than half a second per honk; and it is illegal for Chinese motorists to eat, drink, smoke, or *talk* while driving. Offenders will really find out what rudeness means at reeducation camps.

John Nolan, Jr., campaigned for the post of welfare director in Burrillville, Rhode Island, on the promise that he'd take a 90-percent cut in salary if elected. But the town's treasurer feared that Nolan's decision to return $9,000 every year would mess up the bookkeeping. The town had to formally reduce Nolan's salary to $1,000 a year to placate the "rules are rules" treasurer. Undaunted, Nolan says he's going to ask for another $500 cut in salary. "There's nothing to do in this job," he says, noting that a state takeover of all local welfare in 1970 has left local welfare directors with a lot of time on their hands. He says that many Rhode Island local welfare directors make as much as $22,000 a year, and "actually they don't have any more to do than I do."

"See, I told you — our savings account was federally-insured, so we're not out a cent...."

Soviet railroad worker L. Shevchenko and his wife came across a herd of wild boars crossing the road. "The huge leader of the pack rushed to their car. With its tusks, he tore apart the auto's left fender, buckled the door and bent the grille. The boar then smugly returned to its herd," says the government newspaper *Izvestia.* As a cute comment on the momentous event, *Izvestia* editorialized: "Well, one can hardly expect wild animals to behave like gentlemen. Those who find themselves in their habitat should keep this in mind." Yup, just ask anyone in the Gulag or any Solidarity supporter in Poland.

Cheap imports made with the sweat of exploited laborers who are paid coolie wages are threatening to destroy American industry. At least that's what the US automobile and footwear industries have been wailing and gnashing teeth about. The latest "industry" to whine that President Reagan simply *must* extend import quotas is the clothespin manufacturers of the state of Maine, where 427 people are employed making the devices that keep towels on the clothesline. Imports from Taiwan and Poland accounted for almost half of the clothespins sold in America during the late 1970s, and Jimmy Carter obligingly ordered quotas. So, the Maine congressional delegation, prominent clothespin mavens, and hired-gun Washington lobbyists set about cornering anyone who would listen about the virtues of higher-priced but *American*-made clothespins. On February 22, Reagan agreed to this rope trick. So grab a clothespin. You'll need it over your nose to stop the stink sure to be raised by anyone who believed campaign rhetoric about knocking down economic barriers and the glories of free trade.

No wonder kids don't know how to read anymore. When a Washington reporter called the US Department of Education's public affairs division, the pleasant voice on the other end of the phone told him: "Sorry, our people is in a meeting right now."

—MARK EDWARD CRANE

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TRENDS

BIG BROTHER DOWN THE TUBES

Although European newspapers are mostly privately owned, that has not been the case with broadcasting. Except for Italy (where state monopolization was ruled unconstitutional in 1976), television is virtually a government monopoly. And this has led government officials to view TV as an "instrument of national policy" rather than as part of the news media.

The days are numbered for that sort of chauvinistic paternalism. Technology is about to end the state monopolies and make European television into legitimate media. The key to this transition is the direct broadcast satellite. In 1977 most Western European governments attempted to head off this threat by assigning orbital slots for each country, the idea being that satellite coverage from each slot would be limited to the country in question—and the programming subject to its government's regulation (if not directly run by the state).

But satellite signal patterns are elliptical—they don't match national boundaries. A satellite beaming programs to Luxembourg's 340,000 people, for example, would also reach people in Belgium, France, Holland, and West Germany—another 80 million or so people. Needless to say, that's a huge market. Not surprisingly, entrepreneurs are gearing up to go after such markets. Radio-Tele-Luxembourg (RTL), to take a prime example, is investing $350 million to put up an advertiser-supported direct broadcast satellite. The investor-owned firm has operated commercial radio since 1931 and commercial TV since 1955, in both cases reaching beyond the borders of tiny Luxembourg—but not nearly as far as its new satellite will reach.

Predictably, the proponents of paternalism are beside themselves. West German Chancellor Helmut Schmidt fumes that RTL's programming will "disturb the internal order." The Dutch Ministry of Culture notes ominously that advocates of free-enterprise broadcasting "completely fail to understand the importance of the [state-run] media for the functioning of a political democracy." And a Council of Europe report warns that "there will be consequential dangers for our cultural heritage, our minority languages, and our cultural pluralism" if people all across Europe are able to watch the same programs, free of government control.

Even Britain's staid BBC is worried. Despite having grabbed both of Britain's direct satellite broadcast channels, the Beeb is worried that the all-Europe superstations will be able to bid away the most popular programs and special events from the government-owned stations. In reply to that sort of complaint, RTL's Paul Heinerscheid replies: "If they consistently put on shows that are boring, yes, they're going to lose 50 percent of their audience. What they should do to stop that is to improve their programs," not attempt to hobble the competition.

We can see it now: the antenna police fanning out through British neighborhoods, tracking down those black-market rooftop dish antennas in the name of truth, justice, and cultural preservation. Shades of 1984!

USER, LOSER PAY

Ninety percent of the nation's citizens do not—and will not ever—use the civil courts. Yet, as a "public service," the courts are taxpayer-funded. Litigants do pay their own attorney's fees and what are misleadingly called "court costs" (a nominal fee for miscellaneous paperwork), but taxpayers pick up the tab for all other costs—court personnel salaries, courthouse construction and maintenance, etc.

There are some slight exceptions. For instance, in four California counties, litigants pay for court reporters, and the Los Angeles Superior Court executive officer has proposed such a user fee for litigants in that court. The same officer has also suggested that litigants pay not only for juries for their case but for those who are interviewed as prospective jurors—that is, the entire "panel"—as well.

Advocates of user fees note that the charges would help ease court backlogs by discouraging litigation and would raise some money at a time of budget cutbacks. Opponents to the fees—lawyers' groups, for the most part—argue that the charges would be an economic obstacle to the accessibility of justice.

Accessibility of the courts, however, is precisely one of the reasons they are so clogged, with backlogs of up to several years in some instances. According to journalist Jonathan Alter ("The Case for Selling Justice" *Washington Monthly,* Dec. 1981), a great many cases tried in the civil courts—and particularly the lengthy, costly ones—involve private disputes between parties well able to afford paying for using the courts' services. In 1980, for instance, only 7.7 percent of all federal court cases were civil rights issues, whereas 29.1 percent involved contractual disputes. In that same year, contract and securities cases accounted for almost one-third of federal court cases running 20 days or more. Another variety of cases that occupy the courts—and cost taxpayers—is the nuisance suit, often a frivolous suit filed by the plaintiff to annoy the defendant but without reasonable expectation of winning. User fees would be effective in reducing the number of these cases going to trial.

Alternatives to civil court litigation do exist. In recent years, as the courts have become inundated with cases—during the 1970s, for example, federal court cases doubled while the total population rose only nine percent—alternative methods for resolving disputes, such as arbitration and mediation, have grown in popularity, particularly in the business community. Last year, Alter reports, about 40,000 disputes were resolved out of court through private arbitration.

Alter proposes an even more radical solution to the nations' litigious obsession fostered by free courts, one that combines court user fees with a civil court rule now used in Britain: the loser pays the opponent's attorney's fees. "If we want to make sure that litigation is discouraged," Alter suggests, "we could develop a system giving judges the option of assessing actual court costs *and* attorney's fees to the loser." In this way, those who use the courts pay for the services, and there is sufficient risk in taking a case to trial to keep nearly all frivolous and nonmeritorious cases out of the courts.

A CREDITABLE PLAN

Writing in this magazine last month, Dale Gieringer of Stanford University proposed a plan to allow taxpayers to credit charitable contributions, dollar for dollar, against their income-tax liability ("After the Budget Axe Falls"), in order to spark private funding for particularly

those social-service areas that have been trimmed of public funds. Sketching out the essentials of such a plan, Gieringer calculated that the "implementation of a tax credit limited to 10 percent of one's income-tax liability, for example, would free up approximately $30 billion for private giving—enough to cover all of the fiscal 1982 cutbacks in funding for social programs, with a huge amount left over." Under such a plan, Gieringer theorized, government programs would be eligible for tax-credited donations, thus pitting private against public programs in the contest for the public's newly unleashed dollars.

The elegantly simple plan would have multiple benefits: individuals could direct a portion of their otherwise tax dollars to specific programs of their choice; by competing with private programs, government ones would have an incentive to improve their performance; and the innovations that arise out of such private-sector activity would surely have an impact on the state of social services in this country. Thus far, Gieringer's plan remains a theory on paper.

But a similar idea occurred to San Diego businessman Donald Sammis some time ago, and in January 1981 he decided to act on it. It was then that he conceived the Human Services Option (HSO), a tax-credit plan by which individual and corporate taxpayers would have the option of contributing up to 10 percent of their income-tax liability to a certified health or human services organization of their choice. At the same time, Sammis started a political-action group—called Project Helping Hand—which he chairs, to gather grass-roots support for getting the tax-credit plan into legislation.

Many of the details left unsketched in Gieringer's plan—or to be later worked out in legislation—are filled out in Project Helping Hand's proposal. Guidelines are suggested, for example, for determining the eligibility of an organization receiving tax-credited donations. Among other aspects also worked out in detail is a provision for maintaining current giving patterns that are attributable to tax-*deductible* donations: "the taxpayer would be required," reads the provision, "to give up to a minimum or *floor* before being eligible to exercise the HSO," the minimum being "the average claimed charitable contribution to health and human services of the preceding five years," and this amount would be deductible. This last feature, not included in Gieringer's plan, is likely to attract otherwise reluctant congressional supporters for the plan.

According to Project Helping Hand's Executive Director, Albert Strong, not only have Reps. Barber Conable (R-N.Y.) and Kent Hance (D-Tex.) expressed interest in the tax-credit plan, but the organization is now working closely with the staff of Sen. William Armstrong (R-Colo.) on a bill that would incorporate the Human Services Option.

DEFENSE FROM ON HIGH

In releasing its High Frontier proposal, the Heritage Foundation has made a major contribution to rethinking the nation's defense needs. Instead of suggesting more and better offensive weapons, which would escalate the arms race to yet another plateau, the plan proposes a major commitment to *defensive* systems. It explicitly repudiates the morally odious policy of Mutual Assured Destruction (MAD), the basic premise of which is that our only real defense must be the capability to destroy the Soviet Union.

The core of the High Frontier defense concept is a set of five defensive systems:

1. An initial system to defend existing Minuteman silos so as to prevent nuclear blackmail during the next decade while longer-term defenses are being introduced. It is based on a simple range-only radar and a set of launchers of "swarm-jet projectiles"—nonnuclear shrapnel that would destroy incoming warheads via kinetic energy. Cost: $1 billion. Time frame: 2-3 years.
2. A first-generation space-based missile defense system using 432 satellites, each armed with 50 infrared homing vehicles designed to intercept ICBMs in the boost phase. One hundred of the satellites would be in position over the USSR at any given time. Cost: $13 billion. Time frame: 5-6 years.
3. A second-generation space-based missile defense system designed to intercept those warheads missed by the first-generation system. It would consist of battle stations armed with laser or particle-beam weapons. Cost: not yet determined. Time frame: 10-12 years.
4. A fleet of small manned space planes for use in inspecting and maintaining the satellite systems. Cost: about $1 billion. Time frame: about 6

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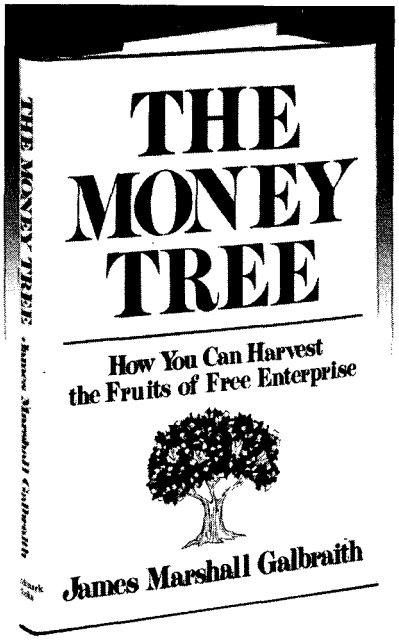
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5. A civil defense program to supplement the other defensive measures and protect a large fraction of the population.

The High Frontier study team was headed by Army Lt. Gen. Daniel O. Graham, former head of the Defense Intelligence Agency. Project team members included experts on weapons systems, military operations, and space technology, including Peter Glaser of Arthur D. Little Co., the originator of the solar power satellite concept. The 225-page report has been submitted to Congress, the president, and the Defense Department.

Generally, the plan appears to be based on technology that is already under development, requiring no major breakthroughs to be feasible. It would add not a single nuclear weapon, nor would it plan to kill a single Russian or violate the territory of any other nation. It *might* require US withdrawal from the ABM Treaty, however, which presently forbids US deployment of conventional forms of anti-missile systems.

BREAKING THE DRUG LAWS HABIT

The argument that it is the prohibition of illicit drugs such as heroin that drives the price exorbitantly high—thus making addicts resort to robbery, burglary, and other crimes to support their habit—is not a new one. But when the argument is being proffered by Arnold Bernhard—editor of *Value Line* financial newsletter and a businessman not particularly known for holding radical views—and when he concludes that we ought to "repeal all antidrug laws," that *is* worth taking note of.

Bernhard, along with Marc Gerstein, a financial analyst, argue in a recent issue of *Value Line* that "heroin is a very low 'value-added' product," which in a free market "would be dirt cheap." "Availability," they continue, "would be no problem. Addicts would be able to buy the drug over the counter. Since they would no longer have to raise huge sums to pay for their habit, the criminal superstructure built upon drug addiction would in time collapse."

The authors note that the two traditional solutions to the drug problem—the "hardline" approach (intensive police crackdowns and stiff penalties) and the "softline" approach (methadone treatment and rehabilitation programs)—have altogether failed. Because "the addict's demand cannot be constrained by force or price increases," they observe, "the effect of enforcement is simply to add a risk premium to the price of dope." And methadone treatment programs have not been effective, the authors report, simply because addicts "do not wish to become involved with clinics even when they are promised confidentiality."

Indeed, addicts "do not consider the risks of getting their drugs outside a clinic to be substantial," Bernhard and Gerstein contend, even when criminal activity to raise the money is necessary. They know that because the criminal justice system is so clogged, "their chances of getting caught are slim, and that, if they are caught, their chances of going to prison are negligible."

Bernhard and Gerstein's advice to government, then, is to "butt out." By lifting the prohibition on drugs, "the responsibility for avoiding drug abuse would fall on each individual, where it belongs," the authors state. "Instead of relying on the government to monitor behavior," they continue, "citizens would have to accept greater responsibility for their own actions."

Finally, say the authors, "We can ill afford to continue squandering vast sums in a vain attempt to legislate a narcotics-free society. . . . In the past, government policies have destroyed a number of legitimate businesses by making them unprofitable. Why not apply the same strategy to this rotten business?"

GETTING IT BACK AT TAX TIME

A General Accounting Office report released in March estimates that this year Americans—private individuals and corporations—will "cheat" on their federal income-tax returns to the tune of about $80 billion. Citing Internal Revenue Service studies that show that in 1980 Americans evaded paying about $20 billion, the GAO report stated that "growing numbers of people in this country are unwilling to comply voluntarily."

The GAO attributes this trend toward greater noncompliance to two major factors: "bracket creep"—that is, the phenomenon by which inflation raises taxpayers into higher tax brackets—and contempt for the ever-more complex tax forms. According to the IRS's studies, about 25 percent of taxpayers cheat on their returns to some degree. Methods of tax evasion range from the increasing use of overseas tax havens and illegal tax shelters to the failure to report barter transactions, gambling earnings, and other "underground" income.

Who evades paying taxes? According to the GAO, corporations will account for about one-eighth, or $10 billion, of this year's evaded taxes. Individual citizens will account for the other $70 billion. But what may be most interesting is that it is by and large middle-class taxpayers who are cheating on their taxes, not the rich.

In an article appearing in the March issue of *Psychology Today*, economist Shlomo Maital concurs with the GAO's conclusion that tax evasion is becoming epidemic. Maital cites various studies that show that a majority of Americans view tax evasion as a minor crime that most people would commit if they thought they could get away with it.

According to Maital's own research, tax evasion is most prevalent among "America middle-class families—those with average incomes—who pay more in taxes than they get in benefits from the government." Because the poor pay very little taxes—but are perceived as the beneficiaries of government programs—

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and the rich can get expert advice to avoid paying taxes legally, Maital reasons, middle-class taxpayers feel that they are being cheated by the system. And the more widespread this sentiment becomes, the greater the temptation to evade paying taxes.

Despite the abundance of evidence that it is what Maital calls the "perceived unfairness" of the tax system that pushes people to become criminals by evading taxes, the authorities are responding by beefing up enforcement, rather than changing the system. Indeed, the proposed budget for fiscal year 1983 provides for 5,225 more IRS agents and support staff and an additional $154 million for tax-law enforcement. But as long as people increasingly feel that they are being ripped off by the tax system, those 27,300 citizens who publicly refused to pay *any* taxes last year will surely find their ranks swelling.

STREET SALES

What's a city to do? Faced with extremely rapid growth (the second-fastest in Texas), badly deteriorated streets, and limited resources, city officials in Laredo (pop. 91,000) hit upon a creative solution: start selling off streets. Since the program was announced early this year, several dozen city blocks have already been snatched up by eager buyers—at about $32,000 apiece. Elmer Buckley, the mayor's assistant, told REASON that all streets but major thoroughfares are potential candidates for privatization. The abutting landowner is given the first right of refusal and must sign away this right before the street can be put up for open bidding. So far, he noted, that hasn't happened; all sales and negotiations have been with the adjacent landowners. In most cases, the purchasers—for example, a motel owner, a lumber yard, the Missouri Pacific railroad—are planning to use the street for expanded parking, essentially the street's primary or secondary use before the sale.

The city government's main objective is to get rid of what it considers marginal streets—those with little traffic that it must nevertheless maintain—so that it can concentrate funds on badly needed repairs and maintenance of other streets. All proceeds from street sales go into a special fund to be used only for street work. (Out of a total of 5,400 blocks, 2,000 need resurfacing, and another 2,720 need complete repaving.)

Thus far, no neighborhood association has offered to purchase any of the streets, as takes place in St. Louis (see "Getting Streetwise in St. Louis," REASON, Aug. 1981). But those skeptics at the federal Department of Housing and Urban Development who considered it too radical to privatize streets (as opposed to simply closing them to through traffic) will have to rethink their preconceptions in the light of Laredo's new program.

THE SCOTTISH SOLUTION

For 50 years, Glasgow politicians have been winning votes by building huge public-housing projects (called "council houses") and promising low rents. So aggressive has the policy been that only 4 percent of the Scottish city's housing—other than apartments—is privately owned. And, predictably, great numbers of the council houses have become so slumlike that many are simply no longer rentable.

To the city officials' credit, however, they have come up with a solution, though still limited in application, that has turned formerly squalid, boarded-up buildings into tidy, presentable homes. The solution: the city has sold a limited batch of the run-down public properties to private owners, who have renovated them to sparkling condition.

The plan started out modestly: 60 council houses in one of the most blighted areas of Glasgow were sold to private citizens. The city government found that providing each new homeowner with a loan of 3,000 pounds was cheaper than the cost of tearing the buildings down. So impressed were the officials with the remarkable transformation of the homes—and in less than one year's time—that 200 more public tenements were put on the auction block. Within two weeks, all were sold.

Privatization has also been Edinburgh's answer to a bad housing situation. Neither city authorities nor private security guards could do anything about the escalation of violence and vandalism at Martello Court, a high-rise public-housing project that had put the city a half-million pounds in debt. To tear it down would have cost an additional half-million pounds, so the city agreed to sell it to a private developer. Whereas Martello Court was a place of terror only a year ago, today it is an attractive apartment house with new carpeting and windows, impressive views, and elegant ornamentation.

RESTORING NATURE—PRIVATELY

One standard claim in defense of "environmental legislation" is that the free market does not protect the environment—that it inherently tends to destroy nature. Richard McIntyre, however, is pioneering a business—yes, a *for-profit* enterprise—that looks to turn that claim on its head. For in 1978, McIntyre, an aquatic biologist and dedicated angler, founded the Bozeman (Montana)-based Timberline Reclamations, Inc., a small company that reclaims streams.

With $10,000 of his own money, the *Wall Street Journal* reported, McIntyre started what has become the first—and apparently only—successful stream-reclamation firm. So successful has Timberline been, in fact, that its 1982 revenues are estimated at about a half-million dollars.

Timberline customers, by and large, appear to be owners of private streams who are willing to pay the company's hefty fees—the preliminary study runs from $1,000 to $5,000; the detailed project proposal, from $5,000 to $50,000; and the actual labor, $500 a day. And the firm's results are impressive. In one instance, for example, the owner of a devitalized stream in Montana approached Timberline, hoping that the firm could make the stream habitable for trout that once lived there. Timberline overhauled the stream—at a total cost of about $35,000. Although it is usually one to two years before fish will repopulate a stream, Timberline's work produced a revitalized stream jumping with trout in less than six months. Contrary to environmentalists' claims, McIntyre's Timberline shows how free enterprise can work to restore nature—particularly when it's in response to private-property owners wanting to care for their resources.

FREEING THE WAVES

Further encouraging news comes in regard to the Federal Communications Commission's trend toward deregulating the airwaves. Several months ago, the FCC proposed that TV stations be allowed to broadcast informational text—stock market quotes, for example—as well as pictures, but the agency declined to recommend standards for the "teletext" (or "videotex") systems. This means that the market—the buyers and

sellers—will determine what system or systems are used. To date, teletext systems (not all compatible with one another) have been developed by five different manufacturers in North America and Europe.

The FCC is similarly allowing the market to determine which stereo-transmission system AM radio broadcasters will adopt. A 1980 FCC ruling allowed the nation's 4,500 AM station to broadcast in stereo. But after issuing a preliminary decision to choose a single transmission system as the industry standard, the FCC repealed its choice and declined to give another. The FCC's refusal to specify a standard means that AM stations themselves will have to choose one of the five incompatible systems that are now available. Despite pleas from the National Association of Broadcasters for the federal agency to set a standard, the FCC appears firm in its decision to let the market prevail.

In a related piece of news, the FCC in March declined to consider prohibiting the ownership of both AM and FM radio stations in the same city. The 4-to-3 vote came in response to a 1979 request from the National Association for the Advancement of Colored People to bar further dual ownerships and to break up existing ones.

DELINQUENTS LEARN A THING OR TWO

They started with nearly nothing, each buying into the business for $1.00 a share and selling other stock to friends and relatives to raise the start-up capital. Within 18 months, Universal Enterprises had done more than $50,000 worth of business. A phenomenal success? Yes—when the entrepreneurs in question are juvenile delinquent inmates at a maximum security detention facility. And how do the authorities respond to such success? Why, they shut the enterprise down, of course.

In 1979 officials at the Orange County (California) Juvenile Hall allowed a group of the facility's teen-age offenders to participate in a Junior Achievement program. Beginning with 27 participants, the enterprise rapidly became a success bigger than anyone had imagined possible. Since the juveniles are not allowed to leave the hall, the JA project—normally conducted as a door-to-door selling activity—was modified into a mail-order business: the Junior Achievers bought T-shirts, baseball caps, and pillows at wholesale, then customized them with decals for resale. During the 1981 spring semester alone, the business recorded gross sales of $28,986, while in the same period other JA programs in the Orange County area averaged only $1,100-$1,200 in sales. The business won the JA award for the best company in southern California.

But, as is their wont (see "Making Good(s) behind Bars, REASON, Mar.), the authorities closed down the program despite the inmates' intense interest in it—100 delinquents had come to participate in the business, and one called the enterprise "the best thing to ever happen to this place."

But bureaucrats *do* have their reasons. The county's chief probation officer explained that the program "became too production oriented and began to interfere with the operation of the institution." Some inmates, he noticed, worked overtime and on weekends at the business, thus interfering with counseling and other activities designed to instill positive social values in the delinquents—such as discipline, industriousness, perseverance, and responsibility?

For the students, however, the JA program was a singular experience. One 17-year-old girl, held at the facility for repeated drug abuse, made $750 in sales commissions one semester, becoming the top sales person. Other students made more than $100 each. More importantly, the youths were able to develop skills that could help them live non-criminally in the future.

Since the program's shut-down, officials at the hall have reconsidered and are now willing to allow JA counselors and sponsors to start up another program, but one scaled down with limits on sales and earnings. The program's former sponsor has turned down the officials' watered-down proposal, calling such a plan an undermining of free enterprise.

WHAT PRICE COAL PIPELINES?

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fact that railroads and oil companies have been granted the power of eminent domain—to force people to sell their land to them—justify the grant of such power to the developers of coal slurry pipelines?

Many people have argued that because railroads (which see in coal slurry lines a serious competitive threat) would generally refuse to grant rights of way beneath their lines, justice demands equal treatment for would-be competitors. And others make the strictly pragmatic argument that "we need" more coal, so such coercion is justified.

An interesting perspective on the issue is provided by a recent Washington Legal Foundation report, "Coal Slurry Pipelines: Is Eminent Domain Necessary?" Its authors, Francis X. Murray and J. Charles Curran, point out that there *is* a voluntary alternative in many cases. Especially in the West, railroads frequently possess only *surface* ownership, leaving the pipeline operator free to negotiate with the underlying landowner for a lease, easement, or other usage right. As a matter of fact, they point out, one coal slurry pipeline company has successfully used this approach. Energy Transportation Systems, Inc. (ETSI), unwilling to wait for passage of eminent domain legislation, negotiated leases for more than 60 rights-of-way for its pipeline from Wyoming to Louisiana. The leases have been tested in court and upheld. And it turns out that the added cost of acquiring the rights-of-way without coercion "may be as high [sic] as 15 percent of the total completed cost."

As Murray and Curran readily admit, ETSI's approach worked:

> *ETSI did not achieve its success quickly or cheaply, yet the final result of its efforts—the operation of a major coal slurry pipeline—probably will be the same as if the power of eminent domain had been available to obtain all rights-of-way. The only perceptible difference will be an increase in the cost to those [who] will ultimately benefit from the operation of the pipeline.*

Yet despite this modest cost, Murray and Curran opt for coercion: "Cost increases of this magnitude may adversely affect the favorable economics attributed by some to the transportation of coal by pipelines." To the pipeline operator, then, eminent domain is equivalent to a 15-percent subsidy. But it is the individuals and companies whose property rights are violated who would end up paying this subsidy. Since a voluntary alternative exists, why on earth should they be singled out for victimization?

How Good Is Private Zoning?

Prof. Bernard Siegan of the University of San Diego created quite a stir with his 1972 book, *Land Use without Zoning.* Despite its title, this book about land-use patterns in Houston, Texas, focused primarily on the majority of the city in which land-use patterns *are* controlled—but by private deed restrictions, rather than by centrally directed zoning. So what Siegan was implicitly comparing was not so much zoning versus nonzoning, but *government* zoning versus *private* zoning.

Despite Siegan's dramatic findings—that deed restrictions appear to protect residential neighborhoods just as well as zoning, that apartment rents are dramatically lower and apartment availability higher in "nonzoned" Houston than in "zoned" Dallas, and that part of Houston's economic vitality springs from the absence of comprehensive zoning—skeptics were generally unconvinced. Most homeowners, for example, cannot imagine how their property values could be protected adequately in the absence of government zoning.

That empirical question—how does private zoning compare with government zoning (and with no zoning)?—has now been addressed. Janet L. Furman devoted her 1982 Ph.D. thesis work at Johns Hopkins University to a statistical study of the relationship between the type of land-use control and the value of single-family properties. Using 1978 sales data from southwest Houston—including two *zoned* communities (which have been annexed to Houston), neighborhoods with deed restrictions, and neighborhoods where the deed restrictions have been allowed to expire—Furman compared prices in the three areas. Correcting for all sorts of other factors that affect the price (square footage, presence or absence of swimming pool, quality of local school, etc.) by a technique called regression analysis, she came up with two striking conclusions.

First of all, people were willing to pay significant premiums—from five to eight percent—for land-use restrictions in single-family neighborhoods. Second, the premiums paid for government zoning and private zoning were statistically indistinguishable. In other words, in the Houston area private zoning via deed restrictions seems to be considered just as effective a means of protection as conventional government zoning. And this finding is deduced from people's actual behavior in the marketplace, not merely from something they might tell a pollster. Conclusion? As a means of protecting property values, private zoning works!

Phone Deregulation Goes International

Britain's Thatcher government is making some progress in introducing competition in telecommunications, reports our London correspondent, Eben Wilson. But stodgy British Telecom—the new name for the now spun-off telecommunications branch of the old Post Office—is persistently dragging its heels.

After making BT an independent entity last year, the Telecommunications Act also authorized competition in long-distance service and the private ownership of telephones—both moves modeled after US developments of the early 1970s. In short order, several new firms went into the telephone equipment business. And Cable and Wireless, a private firm long involved in overseas communications, formed a joint venture with Barclay's Bank and British Petroleum to build a long-distance network to compete with BT. Both ventures have encountered significant delays.

The long-distance system, dubbed Project Mercury, is intended as an 800-mile fiber-optics network interconnecting business customers in Britain's largest cities. It's designed to handle voice, data, and facsimile, offering faster speeds and lower rates than BT. Only one problem: BT controls access to both local phone lines and overseas links. It has taken six months for the government's Industry Department to get BT to work up a set of (high) rates to be charged for interconnection. By the time Mercury is in operation, BT hopes to have its own new high-speed data network in operation.

A similar intransigence characterized BT's response to the telephone equipment deregulation. Of course, all private phones must meet proper standards for interconnection with BT's system. And who sets those standards? Why BT, of course, at least on an interim basis. So naturally the agency has dragged its feet. As of March, the only new models approved for service were all manufactured by . . . you guessed it, British Telecom.

Even Japan is cutting back on government monopolization of telecommunications. The Ministry of International

Trade & Industry is expected to propose a plan to the Diet (parliament) this summer calling for selling to the public part or all of government-owned Nippon Telephone & Telegraph.

MILESTONES

• *Less Power to the Prez.* Saying that the market—not government—would better allocate oil supplies during an emergency shortage, President Reagan in March successfully vetoed a bill that would have empowered the president to set petroleum prices and apportion supplies in time of a crisis shortage.

• *Ground Control.* Land Resources Management, Inc., of Anaheim, California, has signed a contract with NASA to become the first private operator of a ground station authorized to receive data from the orbiting Landsat D spacecraft. The company's own Landsat station is being built in Las Vegas, New Mexico, and will be completed this summer.

• *High Rent? Blame Rent Control.* San Diego is the only major California city without rent control. But according to an extensive study by the Institute of Real Estate Management of the National Association of Realtors, it has rents 13 to 17 percent lower than the state's other major—rent-controlled—cities.

• *Accepting the Cuts.* In a reversal of last year's intense opposition to the very idea of cutting back so-called "entitlement" benefits, several interest groups have recently expressed openness to federal freezes and cutbacks, so long as such reductions are part of an "equitable," across-the-board effort to control spending. Among such groups are the American Association of Retired Persons, the National Retired Teachers Association, the American Legion, and the Disabled American Veterans.

• *Census Confidentiality Confirmed.* The Supreme Court upheld the strict confidentiality of the national census when it unanimously ruled in February that local governments have no right to inspect Census Bureau data. Many cities and municipalities had demanded to examine the 1980 census address lists, claiming that these may provide evidence that their populations were undercounted—and thus will get short shrift in the doling out of federal aid.

• *Ads Legalized.* In a unanimous decision against the state of Missouri, the Supreme Court ruled in January that the state may not restrict the content of lawyer's advertising if the claims are not misleading. It also knocked down a Missouri rule prohibiting lawyers from advertising through direct mail. The court did acknowledge the state's right to regulate professional advertising but said that such a blanket prohibition was unwarranted.

• *Tanks A Lot.* A group of wives of the president's cabinet members and other supporters of the National Aquarium were concerned about what would happen to the national fish tank after it was cut out of the fiscal 1982 budget. So they formed a nonprofit organization to take over the aquatic concern, and are keeping it operating by charging admission to the attraction—$1 for adults, 50 cents for children.

• *Arresting the LEAA.* On April 15, the Reagan administration shut down the Law Enforcement Assistance Administration. Created in 1968 to help local governments battle crime, the LEAA disbursed almost $8 billion during its existence, much of it on projects like the one to determine why people move away from high-crime areas.

• *Spirited Opposition.* The Reagan administration wants to deregulate the alcohol industry but is being met with much industry opposition. The administration believes that many current regulations—such as one prohibiting suppliers from subsidizing retailers' advertising—hamper competition within the industry. But the Wine and Spirit Wholesalers of America and the Distilled Spirits Council want the regulations left intact.

• *Electrifying Decision.* In February the US Supreme Court overturned a 1980 rule issued by the New Hampshire Public Utilities Commission—and upheld by the state supreme court—that prohibited a private company from selling hydroelectric power to customers outside of the state. The court's unanimous decision repudiated the state's exclusive claim to the benefits of its natural resources—in this case, a river.

• *Contracting Cuts Costs.* Los Angeles County could save $18.6 million a year by contracting out the county hospitals' food preparation and serving, major billing work, and laundry—along with operation of neighborhood health centers—to private companies. This plan, which has been worked out by the Touche Ross & Co. consulting firm, would be the nation's largest venture into contracting private firms to provide services now performed by county employees.

—ROBERT POOLE, JR., AND ERIC MARTI

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Billions Down the Drain

Why Californians are squandering their most precious resource

By William Tucker

Water—a clear, colorless liquid, a simple combination of hydrogen and oxygen. We drink it, we cook with it, we clean with it. We pump it from the ground, draw it from lakes and streams, and move it from here to there. We bathe in it, shower under it, and play in it. And, most of all, we grow food with it—nearly 80 percent of all water consumed in the United States is consumed in agricultural irrigation.

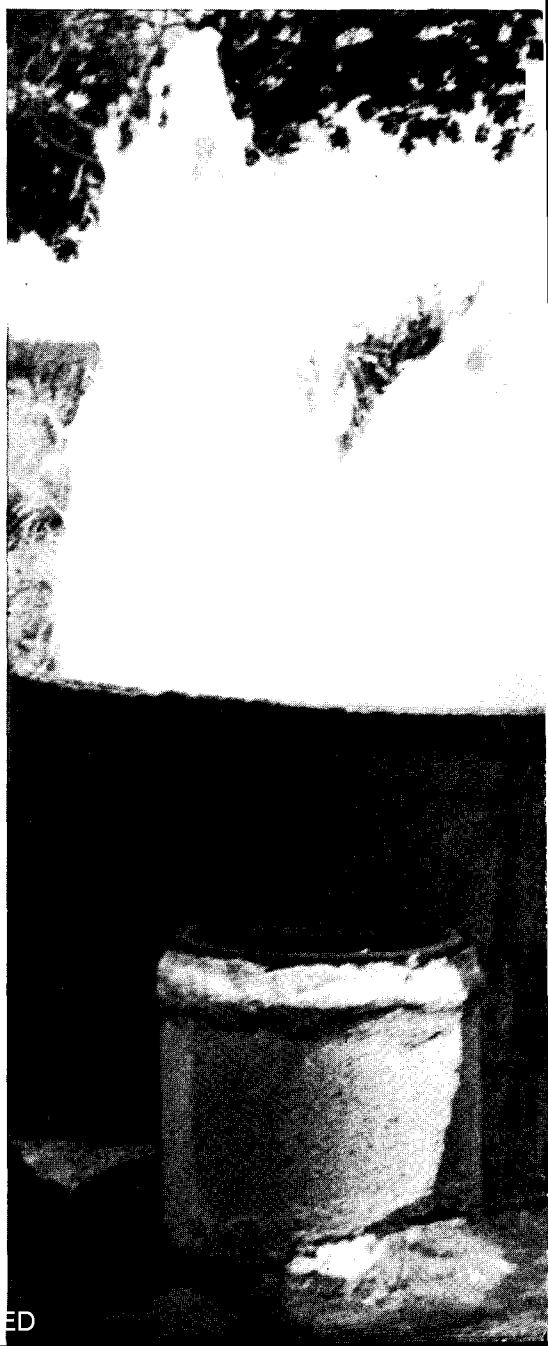
What would we do without enough water? It's a question that analysts say will come up with increasing urgency across the country over the next decade. So it's not surprising that in California—the state that, more than any other state, couldn't be what it is without the deliberate development of water resources—there is raging a huge debate over water.

The focus of the debate is the Peripheral Canal, a water project planned for Northern California since 1966. Officials are calling it the "missing link" in a 50-year-old effort to slake the thirst for water throughout California. The state is already served by the largest water storage and transportation system in the world. From the rain-blessed north, some 1,100 miles of federal and state aqueducts fed by rivers and reservoirs carry water to population centers around San Francisco; farther, to the otherwise arid Central Valley that has made California the biggest agricultural producer in the nation; and, in a major engineering feat, over 2,000-foot mountains to the metropolises of Southern California. The Peripheral Canal and related projects (such as two new dams) are supposed to boost the capacity of California's State Water Project by 43 percent. On June 8, California voters will go to the polls to say yea or nay to the entire package, although "the canal" is the big issue.

Cost estimates run from an optimistic $700 million for the canal itself (from the Los Angeles Chamber of Commerce, in favor), to a depressing $23 billion for the entire project (League of Conservation Voters, opposed). The state voter pamphlet claims a total, inflation-adjusted cost of $5.4 billion for the multiyear project, but a task force set up by Lt. Gov. Mike Curb charges that the real price tag—when interest costs are included—is $12.5 to $17.5 billion, depending on the rate of interest. Construction was authorized by the legislature in 1980, but financing it is up to the California Department of Water Resources (DWR). The current referendum challenging the authorization was forced when opponents raised 850,000 signatures to put the measure on the ballot.

Canal Coalitions

For a rather moderate addition to the state's huge aqueduct system, the Peripheral Canal has aroused enormous controversy, even by California standards, where few important issues ever go by without a public referendum. The canal has touched the ever-exposed nerve of north-south rivalry. Farmers in the Sacramento Delta are livid that they will be shipping "their water" downstate to be used by rival farmers in the south. Meanwhile, Southern Californians fear they will go bone dry without the new construction. Environmental groups in Southern California are opposed because they still dream that choking off public services will turn Los Angeles back into the pleasant resort town it was in the



1920s. Business groups around the state suggest that the canal is absolutely necessary to keep California's economy from collapsing. All this is fairly predictable.

But the canal has also shattered many traditional political alliances. Some environmentalists in Northern California are pleased with the many safeguards that have been built into the plan. The canal—43 miles long, 400 feet wide, and 30 feet deep—would be built along the eastern side of the Sacramento–San Joaquin Delta, the largest inland delta in the continental United States. Made up of some 1,000 miles of waterways and 738,000 acres of islands, the area receives nearly half of the state's water flow and runoff (mainly via the Sacramento River) and is the core of California's massive water development system. Two giant pumps, one federal and one state, on the south side of the delta draw off water that would naturally flow out to sea through the San Francisco Bay.

State water officials insist that the canal is primarily designed to improve the delta area's ecology, which has been ravaged by the diversion of water. In addition to tapping the Sacramento River directly to carry water south, the project would act like a perforated garden hose, squirting fresh water into the delta at key points and driving back the saltwater incursions from San Francisco Bay that have hurt fish and waterfowl life and are threatening irrigation in the area.

"The truth is, the Peripheral Canal is the best thing that could possibly be done for the delta environment," says Dan Chapin, vice-chairman of the Delta Environmental Advisory Committee and a long-time environmentalist. "People who oppose this project on environmental grounds are just being unrealistic." As an added bonus, the legislature passed and voters approved in 1980 an amendment to the state constitution promising environmental protection of the delta and prohibiting development of California's northern coastal rivers for the benefit of southern water users. In a nice double-bind, this amendment will only go into effect *if* the Peripheral Canal measure is approved.

Water gushes out of a standpipe to irrigate farmland in central California

Calif. Dept. of Water Resources

If the environmental community is having trouble agreeing on the issue, however, the state's agribusinesses are even more at odds. Most of the state-irrigated farmers in the fertile San Joaquin Valley are four-square in favor of the Peripheral Canal package because it promises to bring them more water. But the state's two largest land companies—J. G. Boswell Company and the Salyer Land Company, both in heavily irrigated Kern County just north of Los Angeles—have broken ranks. They have decided that the constitutional provisions against using the northern rivers are not worth the cost of the present proposal. As they are often quoted as saying, "We're going to have a canal with nothing to put in it." So they have decided to work *against* the canal proposal in the hope that they can eventually get the state to build a cheaper cross-delta project without the environmental restrictions.

To do this, they have tried an extraordinarily Machiavellian gambit. Boswell and Salyer have become the principal financers of the environmental *opposition.* The pro-canal *Los Angeles Times* ran a series of stories in February revealing that the two companies had so far provided $548,000 of the $810,000 raised by environmental groups working against the project. Environmental groups, in turn, have charged that the *Times* and its owners, the Chandler family, themselves major landowners in agricultural Kern County, are only trying to consolidate their empire by ensuring access to state water.

Perhaps the only person in California who is not passionately arguing one side or the other of the issue is good old Governor Jerry Brown. He is using the June primary election to try to move up to the Democratic nomination for the US Senate and is morbidly afraid of offending any major constituency over what might be termed, if you will, a peripheral issue. Brown is reported to have mumbled some early support for the project but has generally maintained an unearthly silence.

Let's see now, have I missed anything?

Oh yes—a crisis. No such controversy would be complete without a crisis. In this case, it is the long-arriving results of a 1964 US Supreme Court decision, which ruled that the federal government had been overly generous in granting water from the Colorado River to Southern California when the original apportionments were made back in the 1920s. Arizona wrung a larger allotment from the Court and will finally start taking its increased share when its own aqueducts are completed in 1985.

At present, the Colorado provides close to 70 percent of the water used in Southern California. The region will be losing about 17 percent of its legal entitlement, which works out to about 12 percent less water than it is now using. (For the Metropolitan Water District, which serves urban users in Southern California, the figures are 55 percent and 35 percent.) In wet years, this can probably be made up from other sources—groundwater supplies, the present California Aqueduct system, and the Los Angeles Aqueduct, which brings down water from Owens Valley in the Sierras. (The scandals surrounding the 1920s construction of this aqueduct formed the background for the movie *Chinatown.*) But in dry years—like the drought that nearly paralyzed farming around the state in 1976-77—the extra input into the California Aqueduct made possible by the Peripheral Canal and other projects on the ballot could be crucial—or so state officials argue.

Peripheral Issue

For two weeks this February I toured the state of California, trying to make some sense out of this devilishly complicated issue. I visited the state's aqueduct, wandered along a swollen Sacramento River, basked in the balmy 75-degree weather in Los Angeles, stayed indoors in Sacramento for two days while a near-monsoon inundated farmlands and threatened new mudslides in the San Francisco area, and talked with more than two dozen people involved, to one degree or another, in the passions of the debate.

There was no need to go hunting for the issue. The newspapers ran stories about it daily. Practically every television news program seemed to be running its own five-part series on the state's water problems. When I was through, I took home a small suitcase full of literature and spent another three weeks wading through every shade of opinion on the issue.

Unfortunately, I must confess that after all this effort, I still have no idea how I would vote on the Peripheral Canal measure today. There is much to be said on both sides. The canal itself seems not to be a bad idea. It is intelligently conceived, with the purpose of protecting the environment foremost in mind. It is probably everything its supporters say it is. It does not seem overdesigned or ridiculously expensive.

Still, when all is said and done, it is hard to escape the conclusion that the Peripheral Canal is nothing more than the "missing link" in a system that is enormously overbuilt and environmentally destructive. If I had the chance to choose, I would probably want to say, "Yes and no, with the following reservations..."

But that, of course, is the whole dilemma. Why is such an important issue being decided through such a clumsy mechanism that is so weighted with catch-22s and counterproposals that, even after the vote is over, people will have difficulty deciding who has won and who has lost?

The problem with the Peripheral Canal referendum is that it gives voters the illusion of choosing between alternatives when the real issue is not even being raised. The key question for California's water system today is not whether or not the Peripheral Canal is going to be built. The crucial issue is, how long can the state continue to live with a system that is essentially designed to *waste* resources and is inevitably going to end up taxing nature beyond the point where it is going to be able to provide? That is the question that is *not* going to be on the ballot this June. But it is the one that Californians—and the rest of the country, for that matter—are soon going to have to start addressing.

Conservation's Contradictions

As Alfred Cuzan argues in a chapter in a forthcoming book, *Water Use in the West,* the history of water development in the West has been a history of government enterprise. Much of this was done under the aegis of the Conservation Movement of the early 1900s, which held that resources must be protected from the depredations of private enterprise. In particular, the Conservationists complained about "too much competition," which only produced "unplanned chaos" and overdevelopment of resources.

But much of it was also done under the aegis of the contemporaneous Progressive Movement, which argued that private enterprise was *not efficient enough* in developing resources for the benefit of the people. Government, said the Progressives, could do a better job.

And therein lies the contradiction that is at the heart of almost every resource problem now confronting the western part of the country. It affects electric utilities, irrigation projects, inland shipping, and water distribution, as well as federal grazing and forestry.

The enthusiasts of the era of Theodore Roosevelt, which spawned both the Conservation Movement and Progressivism, never saw the inherent inconsistency in these two positions. The proponents of government ownership and development of resources (Roosevelt's "New Nationalism") never noticed that they were simultaneously accusing private enterprise of being both *too efficient* and *not efficient enough* in extracting resources from nature. Their solution was to put all resource development in the hands of government enterprise, bypassing the private system. We are paying for their mistakes today.

It is only today becoming clear to many people that government enterprise not only inherits the problem of should-we-or-shouldn't-we-develop-resources but is far less efficient than private enterprise at doing either. Rather than bringing an optimal number of goods to market in the most efficient manner—the ultimate in conservation—government both *overexploits* resources and *underproduces* from them in terms of efficiency. It overtaxes the ability of nature to provide, while at the same time leaving us with less than we would have had otherwise.

Only recently have many people who might otherwise favor government effort begun to realize this. One of them is Donald May, Southern California representative of Friends of the Earth. Says he: "I think we're at the point where many groups that have traditionally supported big government projects for resource management are now realizing that the market can do a much better job in these matters. I know this makes me sound like a libertarian, but I think a lot of environmentalists have started to reach the same conclusions. Every time we set up one of these regulatory agencies, we end up fighting them four years down the road. The truth is, all government enterprises end up doing is subsidizing consumption. I think environmental thinking is reaching a historical turning point on these issues. We're much more interested in leaving the market free to operate."

The Conservation Movement, one of the major oars in the galleon of Progressivism, was conceived by eastern

scientists like John Wesley Powell and Gifford Pinchot. Trained in resource management and usually employed in the federal system, they concluded that the government would have to play a much more active role than it had previously in protecting resources. At the end of the 19th century, when they were developing their ideas, there was plenty of reason for their response.

At the time, with huge parts of the West still unsettled and people rushing there to seek their fortunes, the nation was facing a dilemma that California environmentalist Garrett Hardin has defined as "the tragedy of the commons." In his famous 1968 essay in *Science* magazine, Hardin used the example of the common pastures of the Middle Ages to illustrate the dilemma. Given access to a commonly owned pasture, wrote Hardin:

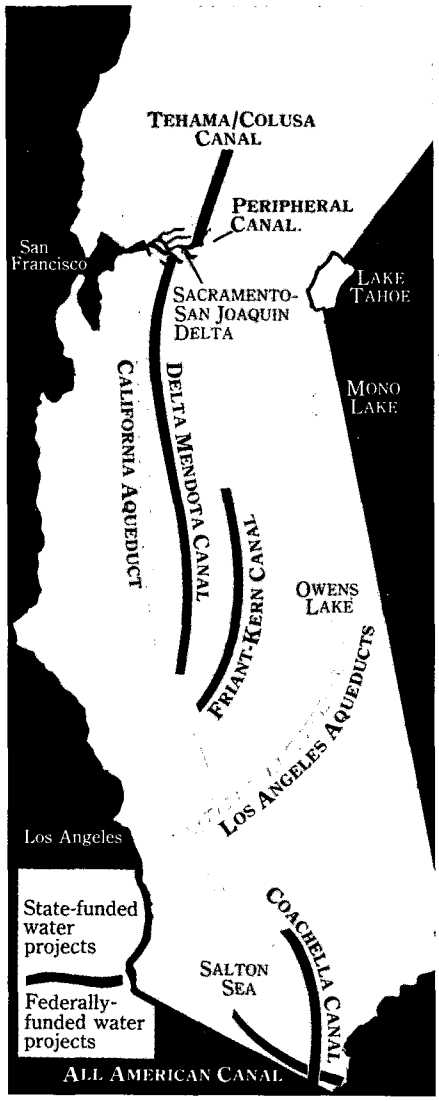
The rational herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd. And another; and another... But this is the conclusion reached by each and every rational herdsman sharing a commons. Therein is the tragedy.... Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a common brings ruin to all.

Such a common ruin was occurring rapidly in the West near the end of the 19th century. Perhaps the most spectacular example is the destruction of the buffalo. This was largely the result of the unchecked depredations of white hunters—plus a deliberate effort on the part of the US Army to deprive the Indians of their major resource.

It was not simply the intentions of the settlers, however, but the existence of the buffalo as an unowned, "fugitive" resource that lay at the heart of the problem. Montana State University economists John Baden, Richard Stroup, and Wallace Thurman have noted that the Indians' early conservation of the buffalo may have been largely a matter of technological limitations. In earlier centuries, when hunting was done on foot with arrows, killings were rare, and "among the Blackfoot alone over 100 different uses were found for one animal."

[But] the introduction of the horse, steel tools and later firearms lowered the "price" of the animal.... During this period many buffalo were killed merely for the tongue and the two strips of back strap. By 1840 the Indians had driven the buffalo from portions of its original habitat.

In contrast, the authors note that in the Northwest, coastal Montagnais Indians practiced strict conservation in trapping



at stationary beaver lodges.

Unlike the buffalo, virtually condemned to extinction as common property, the beaver were protected by the evolution of private property rights among the hunters. By the early to mid-18th Century... the Montagnais were managing the beaver on a sustained yield basis.

One anthropologist who studied the early practices noted that "the Western Montagnais farms his territory by marking his houses, ascertaining the number of beavers in them, and always leaving at least a pair."

It was only when white hunters, who felt no continuing stake in the territory, invaded the country in the 19th century that this conservation program fell apart. The new trappers began to kill the beaver indiscriminately. The Northwest Indians, seeing their conservation efforts coming to naught, eventually joined the slaughter.

The same syndrome was occurring with western forest lands and mining areas in the late 19th century. Access to federal lands was being handed out with few restrictions—and almost no enforcement. Timber lands were leased to small operators who immediately stripped them bare. Miners would burn down whole hillsides to get a better look at what might be underneath the soil. The terms of federal leases were so broad that they could be used to do almost anything. There was no thought of conserving for the future. The public at large would pick up the cost.

As Garrett Hardin later concluded, "The tragedy of the commons...is averted by private property, or something formally like it." Ideally, the solution was to get the western lands into the hands of private owners, who would have a personal stake in seeing that their resources were protected. But this was not easily done. There was just too much land and not enough people to occupy it.

Tragic Solution

The problem, as it has often been expressed, was that America did not have a feudal aristocracy. Had the huge tracts of western lands been in the hands of an American barony, there would have been no need for public intervention. Private interest would have solved the problem. In Europe, where a landholding aristocracy left over from the Middle Ages still controlled whole rural districts, there was never any need for a Conservation Movement. The land was managed by the people who owned it.

In America, though, it would have been necessary to *create* such a landholding nobility in order to achieve the same results. In a sense, this had been tried with the Homestead Act, which had been parceling out 400-acre plots to settlers for three decades, but the mountains and high plains that remained were unsuitable for small farming. Huge tracts had been given away to private enterprises like the railroads, but the public reaction had been overwhelmingly negative.

The Conservationists, under the leadership of Theodore Roosevelt, decided to solve the problem by retaining ownership of vast tracts of the western states in federal hands. This was not without precedent. In many European countries the crown had retained title to "the king's forests." In setting up the national forests and the Bureau of Reclamation, the Conservationists were essentially doing the same thing—even though it went against the American grain of free access to land.

The Conservationists carefully defined the purposes for which land could be

leased—timber lands only for timber cutting, mineral rights only for mining. They developed the concept of "multiple use" and began reserving lands for their "highest use." In general, they took responsibility for being the nation's landlord. They did *not*, as many eastern preservationists were urging, intend that these lands should be left forever in their pristine state—something that contemporary environmentalists still have a great deal of difficulty understanding.

Conservation, then, was an appropriate response to the dilemma of unclear ownership and an unclaimed commons. As long as the federal government protected resources and collected proper "rents" on their use in an operating market, the tragedy of the commons could be avoided.

The germ of the Conservation Movement's undoing, however, lay in a companion idea of Progressivism: that government should also play the role of *developing* these resources in place of private enterprise. The notion was that, in bypassing the profits of private industry, government enterprise would be able to develop resources "solely for the benefit of the people."

What the Progressive Conservationists did not perceive was that by putting the government in the position of owner-developer they were only moving the tragedy of the commons *within* the government's bureaucratic domains. Now, instead of decisions being made according to the economic efficiencies of the market, they would be made through the logrolling of the political system. And, by not allowing the rents and profits on these resources to be determined by the market, the government only assured that they would be *overdeveloped*, because they were being *undervalued*. The result is the huge problems of government misallocation and overdevelopment of resources—water being only one of them—that plague the American West, and much of the rest of the country, today.

Subsidized Depletion

Kern County, California, is a magnificent example of the varying fruits of government enterprise. A 40-mile-wide sector straddling the southern end of the central San Joaquin Valley, the former dusty scrubland is now a beautiful carpet of rich agricultural fertility. Even in February, mile after mile of green cropland lie spread out beneath the mild California skies. "We grow every kind of crop you can imagine here," says Jeff Thomson, 32-year-old scion of a family that has farmed in the area since the 1890s. "We grow cotton, hay, grains, vegetables, garlic, and grapes. We've incorporated for business and tax purposes, but this is still basically a family farm." Thomson and his father and brothers now cultivate about 3,000 acres—a moderate size for the region.

Mono Lake's Market Level

One of the first things that critics of the market usually charge is that it can't protect esthetic or ecological values—things on which "you can't put a price." Yet a fuller understanding of property rights and market mechanisms makes it clear that the market is actually *far more efficient* than politics at handling such things.

Take, for example, the case of Mono Lake. Located high in the Sierras, the lake is ordinarily fed by a half-dozen mountain rivers. Lately, though, Los Angeles has been diverting much of this water to its Owens Valley system. As a result, the level of the lake has been sinking.

The results were unusual. As the water level fell, it was revealed that the lake contained clay pillars caused by upwellings from hidden springs. The strange formations give the lake a lunar quality and have attracted many photographers, nature-lovers, and environmentalists.

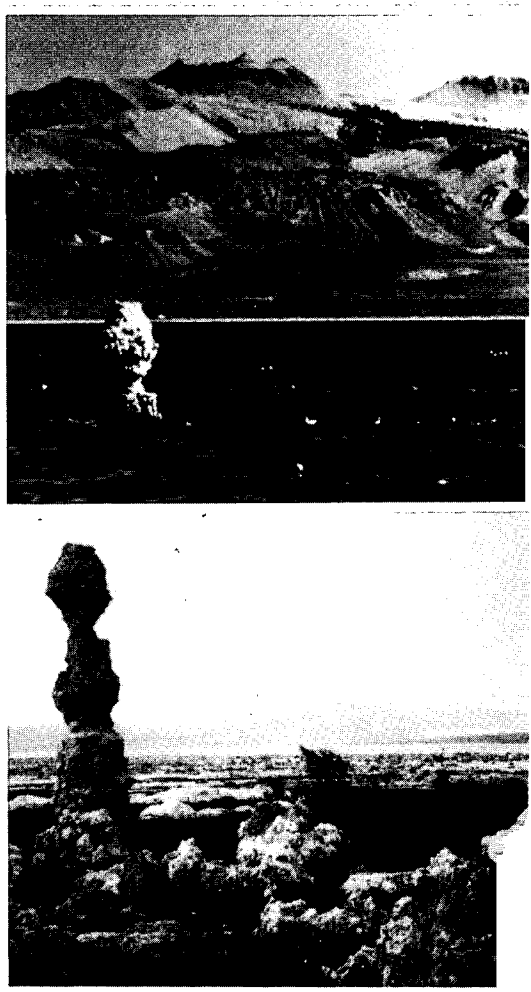
At the same time, however, the receding waters have limited the habitat for migrating birds and driven many of them away. Thus, even though there is a certain irony involved, environmentalists are now campaigning to stop the diversions and "give Mono Lake a drink."

What will happen in the political arena? Basically, it will be a test of strength between environmentalists and the city of Los Angeles. Environmentalists have already mounted an emotional campaign, replete with pictures of the odd clay pillars and the remains of dead birds. Los Angeles, on the other hand, will remain bureaucratically stolid and say the needs of its citizens are more important. There may even be a vote on the issue some day—although it is not clear who should be doing the voting.

How would the market handle the situation? Well, the Mono Lake dilemma represents an excellent example of what resource economists would call a "failure to establish clear property rights." The federal government owns Mono Lake (it lies within a national forest). The city of Los Angeles, on the other hand, owns property through which flow the many rivers that feed the lake and thus, under long-standing laws, claims the right to divert these rivers to its own uses.

But moving water is what economists call a "fugitive resource," meaning that it does not stay in the same place all the time. Therefore, use by one consumer reduces its availability for other consumers, even though the first consumer may never step on the next person's land.

Economists have proposed a system of "in-stream rights" as a solution to the problem. This means that an



The falling water level at California's Mono Lake has exposed odd clay pillars that give the lake a lunar quality.

On the subject of water, Thomson is adamant. "We draw part of our water from our own wells and part from the state aqueduct," says the 200-pound former college football player, who serves as state cochairman of Citizens for Water. "Why should we let all that fresh water flow out into San Francisco Bay and the ocean, where it isn't doing anybody any good? The canal will make *everyone* richer—particularly people who eat, which means just about everybody."

Chuck Bennett, deputy agricultural commissioner for Kern County, agrees. "All the people benefit from water here," he says. "This is one of the greatest valleys in the world for agriculture. We couldn't live here without agriculture. If we didn't have enough water, things would just dry up."

True enough, anyone would have to agree. But the point is, how much water is economical, and when does it become more efficient to use less—changing crops, switching to drip irrigation, providing better protection against evaporation? Any use of water is possible as long as the government keeps pouring in subsidies to make it look efficient. But that only means that other people somewhere else are bearing the higher costs.

Del Gardner is an agriculture economist at the University of California at Davis (20 miles from Sacramento) who has labored long and hard trying to convince people that water should be treated "just like any other scarce resource." When I saw him in his offices, he was looking flushed and healthy, just back from a trip to Egypt (where he said government subsidies in the economy are "infinitely worse"). "Much of the agriculture undertaken in California over the last 30-40 years never would have been attempted if we had been paying the proper price for water," he said. "It isn't that people wouldn't be farming. They just wouldn't be farming in the same way.

"There are places here in the Sacramento Valley where farmers are using tremendous amounts of water to grow rice," he continued. "They flood their fields so that they're underwater for several months. Obviously, this water could be used much more efficiently by shipping it to places where it would have a higher value. If the farmers were paying the full costs, probably about half the land would be in other crops. But valley farmers are allowed to take water out of the Sacramento River without paying any incremental costs. Therefore, they overuse it. The same thing occurs in the federal Reclamation Bureau projects, where water is delivered far below cost. We're not talking about putting farmers out of business in California. We're just talking about working much more efficiently with the resources we've got."

The Bureau of Reclamation, established by the Reclamation Act of 1902, is a prime example for critics who charge that governments are overdeveloping and squandering resources through large, subsidized projects. The bureau was set up to develop multipurpose dams and reservoirs so that the West could be settled by small farmers. In many instances, this has meant exercising eminent domain and squeezing private entrepreneurs out of favorable sites. In others, it has involved building dams and irrigation systems where no private entrepreneur ever would have invested.

The desert has been made to bloom, there is no doubt. But as Mason Gaffney, a member of the Public Utilities Board in Riverside, California, and a long-time dissenter on the subject of subsidized irrigation, points out, the costs have been almost incomprehensibly high. "The Reclamation Bureau has never even charged farmers in the Central [San Joaquin] Valley for the *interest* on its debt," he notes. "All farmers are paying is the maintenance costs, and these are being paid at fixed rates on contracts signed in the 1950s. Right now, farmers are paying about $3 per acre-foot for federal water, whereas the marginal costs in the valley may be as high as $70."

In 1947 the Hoover Commission investigated the Reclamation Bureau's activities and found that it had spent $1.2 billion in its 45-year history, while reclaiming revenues of only $120 million. Estimates are now that when the bonds issued to finance the Central Valley Project, which serves the Sacramento and San Joaquin valleys, come due in 2035, the bureau will have lost $8-$9 billion *on this one project alone.*

California's State Water Project subsidies have not been as great, but they are

upstream user would have to pay a price for using water in a way that makes it unavailable to the next downstream user. As it is, there is no economic reward for simply leaving such a resource in its place. This is why it becomes so cheap to move resources around rather than just letting them be.

Under an in-stream-rights system, Los Angeles would have to pay fees to all downstream users—buy the rights, that is—for any water it diverted without putting it back. (For example, since farmers often have lots of water left over after irrigation, it would be easy for them to save money by returning it to the original sources.) The amount of water diverted—and the amount left in place—would be determined by the willingness of both parties to pay for the right to use the resources.

Thus, Californians would still be faced with the same dilemma at Mono Lake but would have a far more efficient mechanism for solving it. For the federal government, it would be a question of how much it was willing to outbid Los Angeles to allow more water to flow into Mono Lake. For Los Angeles, the question would be how much it is willing to pay to use this water rather than practice better conservation or seek alternative sources.

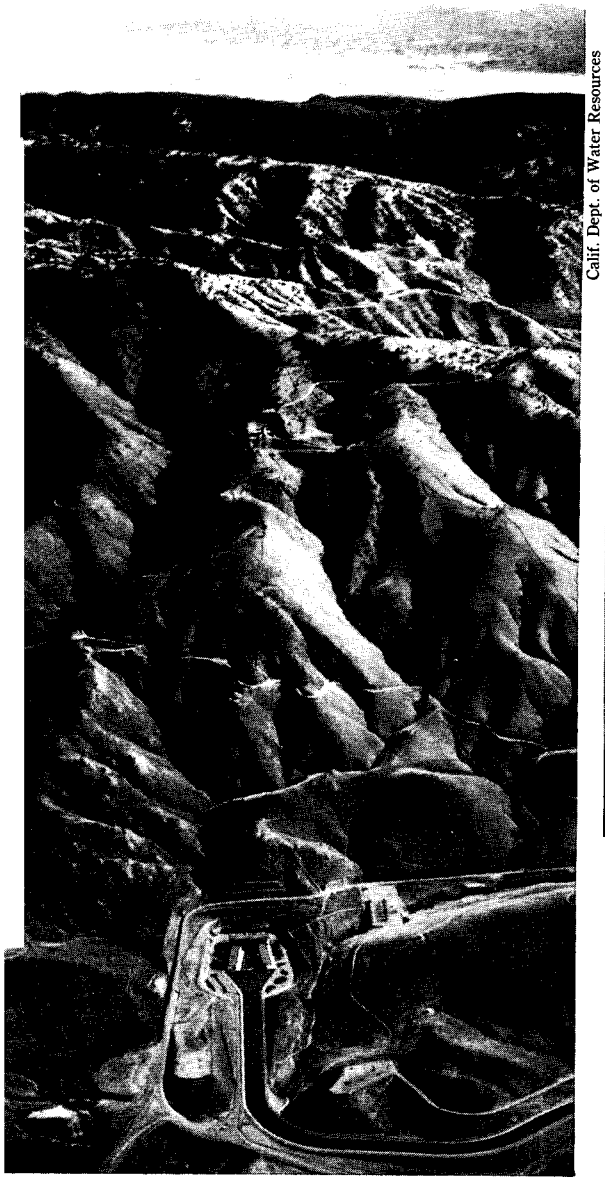
The nice thing about the decision is that it wouldn't have to be made with a crude "yes-or-no" vote or bureaucratic directive. As Thomas Sowell points out in his brilliant book, *Knowledge and Decisions*, market decisions are more "fungible"—they can be bent more easily to fit changing situations. Los Angeles might decide that, for the most part, it would be cheaper to improve conservation and draw from other sources. The federal government might decide that it wanted the lake fuller—but not so full as to cover over the clay pillars that have enhanced its curious scenic value.

In any case, all the incentives for proper decisionmaking would be in place. Los Angeles would have a higher incentive to minimize its use of this water precisely because the federal government (and presumably its wider constituency) placed a higher value on the ecology of the lake.

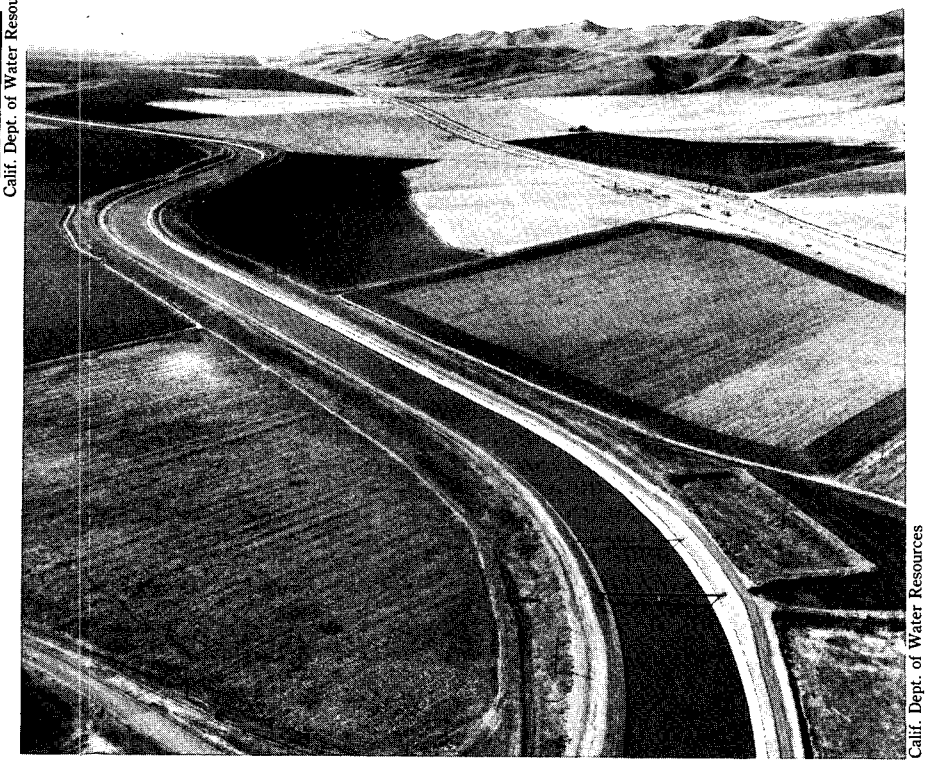
Such considerations as scenic beauty, wildlife, and ecological value are not underrated because the market does not work. They are underrated precisely because the effort has not been made to define the proprietary rights involved and draw their values into the market network. Calling them "priceless" and thus throwing them into the realm of politics only aggravates the problem. Economic decisionmaking can handle all human values as long as we take the trouble to define clearly what it is we are talking about.

—W. T.

Photographs courtesy of Mono Lake Committee



Calif. Dept. of Water Resources



Calif. Dept. of Water Resources

University of California, Davis

Above: One of several huge pumping plants that lift water some 2,000 feet over the Tehachapi Mountains. Above right: A section of the California Aqueduct, which spans two-thirds of the state. Right: In Northern California, an airplane seeds a flooded rice field, water-intensive agriculture that depends on subsidized water.

still substantial. In addition to bringing water to Southern California urban areas, the state has been serving land in the San Joaquin Valley since the California Aqueduct opened in 1971. Water is more expensive in the state system, but one important difference is that the federal programs restrict ownership to only 160 acres. This was part of the Progressives' original intentions that California and the Southwest be settled by a race of yeoman farmers. The federal restriction has often been circumvented, but farms in the system are generally much smaller. On the western side of Kern County in the San Joaquin Valley, on the other hand, large tracts are owned and leased by corporate giants such as Getty, Shell, and Chevron (who are drilling oil in the area), plus the Southern Pacific Railroad and the *Los Angeles Times.*

Some radical environmental groups have seized on this corporate ownership to try to turn the Peripheral Canal battle into a classic face-off between "the people" and "big business." But that is hardly the point. The corporate owners are usually leasing their land to ordinary farmers, and a whole way of life has grown up around the state water system.

As Pamela Naylor, director of the nonprofit Western Water Education Foundation, puts it: "It's fine to talk about freeing the market to get rid of subsidies to a few large landowners. But it's the little people who are going to be hurt out there. We're talking about whole communities that have grown up around the state system. You're talking about the small farmers, the leasing farmers, plus the grocer, the plumber, the dentist, and everybody who makes their living in these communities. These people depend on the subsidies build into these projects."

So it goes when you're trying to undo the damages created by bureaucratic enterprise. But trying to extend the present overextended system can only make things worse in the end. Somebody has to start biting the bullet some time.

Water as a Scarce Good

The real solution to California's water problems—and the only one that is ever going to work in the long run—is to begin treating water like any other good, allowing it to be bought and sold in the marketplace. As Garrett Hardin finally concluded, "The tragedy of the commons...is averted by private property, or something formally like it." *Someone* must claim ownership to water and market it in order to *maximize both rents and profits.* Otherwise, it will simply remain in a political taffy-pull, with everyone claiming inalienable "rights" and "needs" and the government frantically running around trying to fulfill its self-assumed responsibilities, until there are no resources left to be had. As long as the government subsidizes consumption, people will always use more than they would demand under ordinary market conditions.

Charles Phelps, a resource economist at the Rand Corporation, has come up with the most comprehensible proposal for reforming California's water system. He was the principal author of a lengthy Rand report, *Efficient Water Use in California*, which ended up being debated on the floor of the California Assembly even before the finished editions had left the printing shop in 1980. The report has since become the focus of an effort to introduce market mechanisms into water allocation.

"In the battle between hawks and doves, I'm an owl," said Phelps, sitting in the Santa Monica offices of the Rand Corporation, an uninspiring pink building that looks as if it could be the headquarters of the Santa Monica Highway Department. "We're not taking any side on the Peripheral Canal issue, and we're a little disappointed that the report has become a part of the debate. We're trying to take a much longer-range look at what has to be done to make the system operate correctly."

The Rand report suggests that the state remain a wholesaler of water to local water districts but that these districts be allowed to buy and sell water among themselves at whatever the market will bear. "At present," said Phelps, "the districts get specific allotments, which entitle them to certain amounts of water. In a wet year, anything the state can supply beyond the allotment is declared 'surplus.' This is then sold to the agricultural districts at a price that only reflects the cost of transportation. Thus, there is no reflection of marginal costs in the system. The agricultural districts get extra water very cheaply, and the municipal districts have little incentive to conserve because there's no financial reward for using less."

One of the constant points of contention between advocates of market mechanisms and the water bureaucrats is whether prices will have any effect in encouraging people to conserve. "All our evidence shows that people will conserve, and the higher the price goes, the more conservation-conscious they become," said Phelps. "There's no reason why water shouldn't act like any other good under market conditions."

As it is, the state system is not geared toward prices at all but functions on a clumsy system of "needs" and "entitlements." The state Department of Water Resources is basically laboring to fulfill contracts for future water supply that were signed 20 some years ago and projected the levels of consumption for *75 years* to come, independently of any price considerations. These long-range obligations, of course, give the state a mandate to go out and find water wherever it can.

But as the state has drawn more and more water out of the northern areas (where two-thirds of California's rain falls), local users have become more vociferous about *their* "rights" and "needs." The state has finally compensated them with an "area-of-origins" principle, which says that local users have first claim to *all the water they request* as long as it is used for "reasonable" and "beneficial" purposes. This has left the state like a one-armed paperhanger, frantically juggling resources in an increasingly fruitless effort to keep everybody happy. During the 1976-77 drought, there was serious talk about going into Oregon and Washington, or perhaps even as far as Alaska, to fulfill the state's water requirements.

The Power Of Prices

Could prices make a difference? Perhaps the best analogy is electrical consumption, another consumer item that has been defined as an unalterable "need" by public regulatory bodies and consistently priced below the cost of providing additional electricity. In the early 1970s, electrical demand was still rising at a steady four percent per year, and both federal studies and utility projections were talking about a 1,000-reactor nuclear electrical system by the year 2000. In the mid-'70s, Amory Lovins published his *Soft Energy Paths*, which pointed out that this entire orgy of overconsumption was being fueled by the *average* pricing practiced by the utility commissions for the supposed benefit of consumers. He noted that consumers were coming nowhere near to paying the actual replacement costs—marginal costs, that is—of electricity. This, he said, was leading to a huge overcapitalization of nuclear power plants.

Consumers are still not paying anywhere near the marginal costs of electricity. Yet even with the increases that have come from higher oil prices, the demand for electricity has turned out to be far more flexible than anyone ever imagined it could be. Lovins's predictions have proved to be devastatingly accurate, and those utilities that have gone on building without taking heed of the effects of pricing have ended up near bankruptcy, holding costly white elephants.

Could the same break in traditional demand patterns happen with water use? The answer seems to be, unquestionably, yes. There is undoubtedly enough slack in the system now that conservation efforts would make a huge difference in cutting down the need for new supply sources. For example, three-quarters of California's irrigation, which itself accounts for 85 percent of water use in the state, is by "gravity methods" (mostly, open-ditch irrigation). Irrigation via sprinklers uses only 18 percent as much water, and drip irrigation uses only *1 percent* as much. But because drip systems cost more in labor than surface methods, subsidized water prices make such conservation uneconomical for farmers.

Conservation would not necessarily make the Peripheral Canal an unneeded extravagance. It is possible that its positive environmental effects in the delta would still make it worthwhile. But that could all be decided later.

The point is to find out what the system needs *now.* All sorts of ideas are being passionately advocated all around California, of course. Environmentalists grind out figures showing it would be cheaper to cover the aqueducts and prevent evaporation. Prodevelopment groups say that conservation can serve a purpose but still won't be enough. Others say that nothing but new supplies can help.

Yet all this amounts to is a group of blind men groping around in the dark. No one has the *information* that would tell them whether it is now more economical to conserve or to supply, to prevent groundwater seepage or to build wastewater recovery plants. That is because the only information that ever conveys any accuracy about how we can improve our efficiencies is what reaches us through the price system. Right now,

nobody in California knows what the true cost, and thus the appropriate price, of water really is.

In the absence of any real information, people substitute "cost-benefit analyses," those sophisticated instruments of economic astrology that can be made to prove anything. Numbers are picked out of the air and batted back and forth like shuttlecocks until everyone reaches the sensible conclusion that statistics are meaningless. Meanwhile, the only number that would really mean anything—the market price for water at the bottom of a monthly water bill—is shunned the way alcoholics fear sobriety.

Says Del Gardner, who lives in Davis, where there is no such thing as a water meter: "I must admit that, despite my clear economic understanding of how much water really costs, I still let the lawn sprinkler run on far too long. Information has to be effective—meaning it has to hit you in the pocketbook—before it's going to motivate you to do something about it. What's the sense of worrying about any commodity if you don't have to pay for it?"

Environmental Economics

What are the possibilities that such reforms can occur? Now, as ever, there isn't much of a constituency for the market. The general good rarely appeals to the greatest number. Instead, people find it more useful to organize into little affinity groups and ask that the market be distorted a bit in their favor.

Right now the group that is arguing for a market solution is environmentalists who are opposed to the canal. State Assemblyman Ted Bates, who represents Oakland and Berkeley, introduced a bill last year that would eliminate the Department of Water Resources' $3-million annual subsidy from tidal oil land revenues and would allow local water districts to buy and sell water among themselves.

"The investments that are being proposed in the Peripheral Canal bill are highly inefficient," says Lenny Goldberg, staff economist for Assemblyman Bates. "They're going to be ultimately detrimental to the economy of California. What we're proposing is to reform the whole system and make it more efficient.

"Our first priority is to get rid of the tidal-oil monies," says Goldberg, noting that this has already been the source of $550 million of interest-free money for the DWR, a grant that stands to be doubled over the next 20 years. "Then," he continues, "we want to weed out subsidies within the system. Under the present system, water users are supposed to pay back the state for the operating and maintenance charges, plus capital costs, at a rolling rate of interest of 4 percent a year. That's a significant subsidy to begin with. But even that isn't being collected. So far, *none* of the capital costs have been repaid. All they're doing is charging operating costs, plus the low interest. This means water is being tremendously underpriced.

"The immediate effects of eliminating these subsidies, plus allowing transfers, could be strong. There are estimates that the marginal price for water in Kern County [in the San Joaquin Valley] may now be as high as $100 per acre-foot. This would promote conservation, instead of the usual pattern of subsidizing new construction.

"A lot of people are surprised at our position," he adds. "They say, 'I thought liberals weren't supposed to like the free market.' But I don't see any other way of correcting the distortions in the state's current use of resources."

It is encouraging to see environmental groups finding market mechanisms more attractive. But a caveat should be offered. Their interest in the market may be something of a temporary expediency.

Environmentalists have been playing an odd, and in some ways unprecedented, role in American political life. They have been, by and large, a group of highly educated, fairly affluent people adopting the traditional role of a landed aristocracy. They have argued for environmental protection, the conservation of resources, the slowing of growth, and a stemming of the tide of mediocrity in America's mass-marketing system. Their principal method to date has been to influence the economy through government regulation.

In the Reclamation Bureau, the Army Corps of Engineers, and the California State Water Project, however, they have run up against something quite unexpected. They have encountered bureaucracies that are *far more politically entrenched than themselves.* Therefore, the usual tactics of regulation and political maneuvering have not worked very well. Finding themselves rather helpless against these state juggernauts, environmentalists have begun to turn to the market as a countervailing power that can be pitted against the bureaucracy.

But as a kind of postindustrial aristocracy, environmentalists are still mainly interested in the *under*utilization of resources, just as most preindustrial aristocracies have always been. Therefore, their romance with the market is likely to have its limits. Environmentalists will support it as long as it serves as a tool to throw against the tendency toward *over*utilization that comes with bureaucratic enterprise.

But that does not necessarily mean that they will be uncompromisingly committed to private enterprise. In fact, just the opposite will probably be true. If water resources, land development, or electrical demand were put entirely in private hands, they would probably spin the system back the other way and use government regulation to *hamper* the workings of these private enterprises. Environmentalists are making an important contribution to the current debate over water resources in California. But their overall commitment to the market may be something less than passionate.

Peripheral Vote

All this being said, then, the controversy over the Peripheral Canal will make little difference unless it serves as a touchstone for Californians to start dealing with water "just as if it were any other resource"—which, of course, is just what it is. As Del Gardner puts it: "Only in the Garden of Eden was it possible to use resources without somehow contributing to someone else's scarcity. Since our fall from Bliss, the most practical alternative we have left is to use our resources according to the laws of economic efficiency. We'll still have equity problems to solve, but if we increase the total size of the pie, we'll probably be better off."

Only a careful delineation of property rights and the free functioning of a market system will assure that people will get the best our technology can now afford as well as guarantee that we do not overuse and squander future resources in a fruitless search for a false present prosperity. Remarkable as it seems, the market not only optimizes our present efficiency. It also assures that we will not overstrain our resources in trying to extract more from nature than she can provide.

If it would send a message to the state that water must be treated as a resource, then a "no" vote on the Peripheral Canal might make sense. Otherwise, in terms of solving California's water problems, it really matters very little whether or not the canal wins or loses on June 8. ◻

William Tucker has written for Harper's *and many other magazines. His book* Progress and Privilege: America in the Age of Environmentalism *has just been published by Doubleday. This article is a project of the Reason Foundation Investigative Journalism Fund.*

What's happened to Sweden under socialism

CYNICS AND CHEATS

BY ERIC BRODIN

I am a native of Sweden, but I had had the opportunity to live outside of Sweden for 25 years before returning in 1972 for eight years. Having learned in the United States what the principles of freedom mean, I could see the consequences of the social welfare state for Sweden and its people. What I discovered during those eight years made me very disheartened, for I love my own people. (I have traced my genealogy back to the 1600s and I am pure Swedish, and therefore my roots are very firmly anchored in that nation, but the principles of freedom I learned in the United States.)

What disheartened me is the way the social welfare system set up in Sweden has affected the moral behavior itself of the Swedish people. I am led to the conclusion that social welfare provisions of various kinds are not only accompanied by misuse of them; they *engender* misuse. The reason is not very surprising. We all like to look out for ourselves; we want "what's coming to us." And if you have a system of socialism, which is really just another word for institutionalized envy, then you are appealing to the crassest variety of this universal human feature. So while Sweden has always been known as an honest nation, the Swedes as an honest people, I'm afraid that this cannot be the adjective that we use about Swedes today to the same extent as in the past.

RIPPING OFF THE SYSTEM

My countrymen have been subjected to a very repressive tax system that they feel is unjust. With no overt way to protest against this because of various factors of indoctrination, they have devised other ways, other means, of getting back at it—various forms of cheating on taxes and cheating in order to benefit from the social welfare system supported by their taxes. Let me catalog some of the ways whereby the Swedes feel that they get back some of the tax money that has been expropriated from them.

• In the past, hardly any tax declarations needed to be checked very thoroughly. Today it is estimated that Sweden loses between three and four billion crowns each year because of false declarations. In 1979, for example, out of about 6 million tax declarations no less

than 2 million had some inaccuracy in them—perhaps not all of them due to intentional falsification but nevertheless needing to be checked. And the extent of the inaccuracies was 4.5 billion crowns (about $1 billion) in 1979 alone.

• Work Projects Administration types of retraining programs have grown to such an extent that today 85 million crowns are distributed every year to various persons or industries to provide them with subsidies either for retraining or to employ people who, it is thought, would otherwise not have work. Naturally, when you allocate such a large amount of money there is a potential for misuse. Often people will say, "Well, I'm tired of working. I'm going to go into a WPA program." So they're trained for a job in an occupation that is needed in the economy, but they don't use it. They are not compelled to take the job for which they have been trained, and many don't. I've seen cases of this time and time again.

• The Swedish government pays for taxi service for those who are handicapped. Taxi drivers are then tempted to, and do, write out receipts for having taken people around when they haven't done so. Or you have a couple where the man is handicapped and the woman is not. She would be inclined to call up the taxi service because she's going shopping, and by using her husband's card, she gets a free taxi ride although she is not entitled to it. In one year alone in Stockholm, 194,000 persons use this service, and in all of Sweden it costs 490 million crowns annually for this taxi service for the handicapped.

• Every time something is offered, there is a temptation to utilize it unjustly. The illness insurance is another sad example. It's quite frequent for people simply to call in ill. It's not even called *being* ill any more, but being "reported ill." It's a new term in the Swedish language. There was one case in which the office staff didn't like a new employee, so they decided the protest would be for all of them to "call in ill." They got their illness insurance compensation, and the office had to close. Recently a union leader for the teachers, saying that their teaching load was too heavy, suggested that the teachers "report themselves being ill" in order to protest. This is a very serious subversion of the program.

• There are 50 different kinds of aid provided by municipal and central government for various industries. A few years ago there were 2 aid programs for ailing industries; today there are 50. Can you imagine the temptation of a small industrialist, who, in addition to paying his employees, must "contribute" the equivalent of 40 percent of his employees' wages to a social fund, to want to get some money back in the form of utilizing this aid? And naturally, case after case proves that they have taken the "25-crown" subsidy, for example, to employ people where they have not had any such people to employ.

• Every student in Sweden gets a study allowance—in part a loan and in part a grant from the government. And there have been a number of cases lately of abuse of this. At the beginning of the school half-year, students get an allowance that amounts to 9,600 crowns. It is very much a temptation for those who really do not intend to study to go out and use this large amount of money for other purposes.

I have some acquaintances, a young American man and his Swedish wife, who had been in Sweden long enough to be subverted by this system. They decided that they wanted to go back to America, but they didn't have the funds because it's very difficult to save when you only have 20 percent of your salary left. So they decided both to enroll at the university, and I said, "Well, are you going to study at the university?" "We'll study," they said, "but that isn't our real intention. You see, each one of us is entitled to a household loan, as students, of 30,000 crowns. That's 60,000 crowns between us. There'll be just enough to take us back to the United States and settle." Now that is not quite the way the Swedes in the past century came to the United States, and it isn't what I would recommend to anybody.

• Sweden has an adult education scheme, and of this I have particular personal knowledge because while I was back in the country I was asked to teach Swedish for immigrants in an adult education class. They are very prevalent, these study circles for adults in Sweden, and they involve a great many people. But I quit the program in disgust because I was asked to sign as present persons who were not there. And why? Because if the attendance falls below a certain number, this particular study circle cannot get the subsidy from the government. And this happened time and time again. In one little city alone, one organization claimed 128 circles and received 192,000 crowns in government subsidies to which they were not entitled.

• In Sweden there is a housing allowance for people whose income is not sufficient to pay the rent. This program illustrates how Sweden indicates an increase in the standard of living through the increase of people receiving various forms. If my income is not sufficient, I can call on the local government, and from tax funds they and the central government step in and pay the difference. The temptation, then, is to move to a more expensive apartment, because it's not going to cost me any more.

• There is a housing allowance that is determined according to how low an income you have—the lower your income, the higher your allowance. But there is also an unemployment scheme that provides more money the more money you have earned; in other words, compensation is determined according to wage income. So it's been very interesting, for

"I BELIEVE THAT IT IS TOO LATE TO SAVE SWEDEN,

the authorities have been compelled lately to compare the income reported to the housing authorities and the income reported to the unemployment authority. And they found that the differential is sometimes as high as tenfold. One more example of how a policy is subverted in a desperate attempt to get back some money.

• Sweden has also a children's allowance—families get an allowance for the children who are still living at home. Some immigrant families who went to Sweden learned rather soon that there was something to be gained from this system. They simply reported their children to the authorities, and the checks began to come. But they realized that this money would go further in their home country, so they simply went back home. But they had one contact in Sweden who maintained the address so that all the checks would come; they would be cashed by this contact, and he would keep a certain percentage and the rest of the money would be sent home.

• Even the TV licensing system provides a way to get back at the state. There is a state monopoly on radio and television in Sweden. Each viewer and listener, inasmuch as it's not commercially paid for, must pay a license fee for programs. The license fees are not exorbitant; it is nevertheless estimated that, by 1980, 200 million crowns in license fees were not being paid each year. Now the government runs a fleet of cars that sneak around the streets with a little antenna to determine when people are watching television without having paid, and then they are hauled away and made to pay up or go to jail.

• The widespread practice of providing subsidies to almost all newspapers and magazines (except some of the largest newspapers in major cities) has also given rise to misuses, when false claims about circulation are made in order to get larger subsidies. The subsidy system is by now involved in almost every area of Swedish life—and so, of course, are the abuses of the system.

BUT IT IS NOT TOO LATE FOR THE UNITED STATES."

A QUESTION OF VALUES

When the building of a welfare state was begun in Sweden, the intention was to create a new society. The schools were to play a vital role in this. Olof Palme, the third socialist prime minister of Sweden and the one who created the ideologically honed Swedish social welfare state, said, while serving as minister of education before becoming prime minister: "The school is, without doubt, one of the best instruments in regards to the structural transformation of society. The school's function is to change social reality." How the officials of the social welfare state have shaped education to fulfill that role is instructive.

One of the creators of the Swedish welfare state, Ernst Mischanek, said in his analysis of the system that it promised everyone "freedom of choice" in education. Such freedom in Sweden is a chimera—it doesn't exist; it is not even conceivable in Sweden, where the egalitarian notion that everyone ought to have the same education is so entrenched that there is no realistic possibility of private education. Only one half of one percent of Sweden's school population attends private schools. They are operated by small Christian organizations, and it's very difficult indeed to be able to continue them, because parents have to pay the high taxes toward the public schools and at the same time try to pay the cost of the private schools.

Now, the local communities and their school boards have become aware of their need to control even preschools. They did this in an interesting way: we will not, they said, interfere with the existing preschool-kindergartens that are operated by churches or other charitable groups. We are merely going to provide an additional service for those communities that don't have such a service, so that everybody can be equal. Now the next step was: we must reserve the right to determine which one of these preschool institutions is to be allowed to operate at what time of day. And after a while the Christian preschools started to be eliminated, because the municipal or government school had a priority, and naturally the time allotted was mostly from 9:00 to 12:00 or 9:00 to 1:00, when working mothers needed to place their children in some sort of a care institution. Thus was eliminated this alternative in education.

Sweden's schools have religion classes, and although Sweden has signed a UNESCO provision and another international convention limiting the state's involvement in this area, the Swedish government has taken the position that "we don't need to conform to this inasmuch as our religious schooling is so objective in character." That means that Jesus and Mohammed and Marx and Buddha are placed on the same level. Now there are some Christian parents who object to that sort of objectivity and would, if they could, withdraw their children from the religion classes. But the Swedish government said no: we cannot start allowing this sort of deviation in the educational system. The parents had to go all the way to the Human Rights Commission of the Council of Europe to force the Swedish government to recognize parents' elemental right to provide religious training of their own choosing for their children. And so we see what a just society this is when fundamental rights must be wrested from the state.

But the architects of the social welfare state assured everyone that the benefits would be worth the losses of individual liberty. Alva Myrdal said, for example, that "we are creating a society in which brutality and violence are gradually being stamped out like other contagious social diseases." Today, the Myrdals—Alva and her partner, Nobel Prize-winning economist Gunnar Myrdal—live in Santa Barbara, California. The rise of crime and juvenile delinquency in the postwar world is a trend alike in industrial and developing nations, in capitalist as well as socialist states. The difference is that capitalism does not make the claim to eliminate social problems, whereas the creators of Sweden's Fabian welfare society promised that their system in fact would wipe out crime and violence. It is demonstrably true that in no other industrial society is the problem of juvenile crime so pronounced as in Sweden. Drug addiction, alcoholism, and vandalism are daily occurrences, and with all the edifices of the welfare state, the problems cannot be solved by the Swedish authorities. They merely prescribe more of the same, more collectivized institutions to take care of it.

Vandalism costs Swedish communities 100 million crowns each year. In Malmö, the city where I lived, with a population of 240,000, the bill for vandalized schools alone is five million a year. But the municipal authorities and others who are now seriously concerned about this problem simply fail to realize that there is a very intimate link between the right to property and the vandalism. They never consider this link; they never even contemplate that there might be a connection between the two.

In Sweden today, very few people own private property in the cities, and there is a propaganda campaign against all those who wish to own private housing. As Clarence Carson once observed, writing in the *Freeman,* "There is an essential nexus between property and man, but socialism breaks this connection." While "property is the vital extension of the man who owns it," he explained, "property held in common is frequently abused and neglected, and state-owned property can attract little more respect than the state that owns it." So vandalism today is first of all evidence of the ruthlessness that comes out of the fact these juveniles come from families who do not own property and therefore have not been able to instill in the child a respect for their own as well as other persons' property.

SLOW SUICIDE

Alcoholism, too, is an immense problem among the young in Sweden today. I was horrified to see 14-, 15-, and 16-year-olds dead-drunk on the ferry between Denmark and Sweden. More restrictions are being imposed, more rules and controls, yet nothing seems to work. The government has banned medium-strength beer in an attempt to eliminate problems with juvenile drinking. The youth merely graduated to stronger beer or to wine. So there are calls for more restrictions.

The libertarian in me says it won't work, but I am myself in a quandary about the right solution. I do not think that the Swedish character is so completely different from human character in the rest of Europe. If you do eliminate restrictions, after a period of time perhaps the drama that surrounds having the forbidden might diminish and the Swedish people might drink less. But it's primarily the young people that I'm concerned about. Nine out of 10 of the 15-year-olds have consumed hard liquor, and one-third of the boys and one-fifth of the girls have been drunk. When I asked 18-year-olds about this to check for accuracy, they said, "It is much worse than what you are describing." Stina Bengtsson, who for 40 years has dealt with alcohol problems in Sweden, reported to me: "We now have fully confirmed alcoholics in the early 20s and 20-, and 25-year-olds who must be given pensions as permanently unemployed people for acute alcoholism." At least 15 persons are known to die each day in Sweden from causes directly attributed to alcoholism.

We need to ask the question *why* Sweden is plagued with this problem. I have merely been describing the symptoms, but I am also suggesting that the causes may be found in a society in which the individual is lost. Alcoholism is a form of slow suicide by primarily young people who have lost their moorings. Just before I left Sweden, there was a program with young people on television and they were asked why they drink. They said, well, because it gives us a sense of security; we drink with our companions because there we feel we are being accepted. And when asked, only 1 in 10 said that they felt loved, wanted, and needed by anyone. It is not without significance to note that the greatest degree of alienation, isolation, hopelessness, purposelessness, in Sweden today is found among the very young.

One of Sweden's foremost authorities of the Swedish welfare state, Nils Bejerot, medical doctor and sociologist, has said:

We must seek for the causes of the destructive behavior of the young in the basic foundations of the welfare state.

My personal interpretation is that, during a long period of time, there have accumulated so many and such serious disturbances in the system that we now find ourselves in a deepening crisis of the system, where the welfare system itself through its mechanisms produces young analphabets [illiterates], juvenile delinquents, alcoholics, narcotics addicts, physically and psychologically ill, tranquilized and rejected, people at an accelerating speed.

The fundamental problem is that we are on our way to creating a society where the individual person no longer fills any function. There is no longer a nexus between actions and results. The society becomes increasingly artificial. And an artificial society cannot produce anything but alienation, indifference, and destructiveness.

INDIVIDUALITY DENIED

These, then, are some of the results of the Swedish social welfare state, a state that was created in the mistaken belief that human suffering and social ills can be eliminated merely by governmental efforts toward economic equalization or through a network of social reforms. Now social evils exist, of course, in every society in various forms, from the Soviet Union to the United States. But to claim that the welfare state can eliminate these evils is a fantastic claim. I would in fact say that they have, by taking away individual responsibility and by always placing emphasis on the collective, eliminated some of the essential fabric of Swedish society. After all, in a society the individual must be responsible for his or her acts.

Let me quote again from an article in the *Freeman* by Clarence Carson, where he analyzes the Swedish society:

The tendency of democratic socialism is to make the individual deny himself in all those ways in which he is unique, different, peculiar. It may be the worst tyranny of all, for it denies the individual conscience, denies it by not allowing it room for operation in the ordinary way, in the warp and woof of life. To be forced to yield to the collective will in the ordinary decisions of life, is to deny the individual a significant portion of humanity. The shift from living under the social influence of tradition to living under the compulsion of collectivism may occur so gradually that the individual is hardly aware of it. It is a crucial part of the theory and practice of gradualism that this should be so. This has been especially the case in a country like Sweden, where the outer works of tradition have been preserved while the inner works have been eroded away. The church still stands, but it stands for very little. The home has not been outlawed, but many of its functions are now served by the state. The moral and spiritual dimensions of life have been severed from their roots in social democratic Sweden. This has not been done by outlawing them; Sweden has substantive religious freedom, and many spend about as much time as they will contemplating the domain of the spirit. It is rather an order of priorities that has been established. Priorities that are material in character which leave little room for the development of moral and spiritual beings.

Finally, let me quote from a book that I regard as one of the most incisive analyses of the Swedish welfare state, Roland Huntford's *The New Totalitarians.* He says:

Pioneers in the new totalitarianism, the Swedes are a warning of what probably lies in store for the rest of us unless we take care to resist control and centralization, and unless we remember that politics are not to be delegated but are the concern of the individual. The new totalitarians dealing in persuasion and manipulation must be more efficient than the old who depend upon force. It is straining optimism to the limit to suppose that other men will necessarily choose freedom simply because, unlike the Swedes, they are still taught to admire it.

It will be rightly noted that I am very critical of the nation that gave me birth. But I also have a loyalty to the country of which I have become a citizen, the United States. I believe that it is too late to save Sweden, but it is not too late for the United States. There is a peculiar resilience in the American character that defies the edicts and the fiats of bureaucrats and governments. It was from my religion that I learned to respect and value the individual. It was in the United States that I realized that there are institutions and ways for us to recapture that tradition that is ours, a tradition that we might be able to invigorate in order to defend our precious heritage of freedom, that same freedom that many millions have sought for 200 years, yearning and longing to be free. This is why I think we must be very concerned about what has happened in the land of my birth. ◧

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Collision Course

The next time two planes collide in midair, it could be because the FAA shot down a privately developed collision avoidance system.

By John Doherty

ON MARCH 13, 1982, a single-engine Yankee slammed into the tail section of an Air Force jet tanker in the air 30 miles west of Phoenix, Arizona. Both planes crashed in flames, killing all six of the people on board. It was the fifth midair collision of 1982.

And it was 23 years since a pair of midair collisions between a military aircraft and a civilian plane had led to the creation of the Federal Aviation Administration. In April 1958 an Air Force fighter smashed into a United Airlines DC-7 over Nevada, and a month later an Air National Guard jet trainer and a Capitol Airlines Viscount collided over Maryland, strengthening arguments for a single air traffic control (ATC) system rather than the split civil-military regime that had prevailed until that time. So in 1958 the FAA came into being.

Yet in the ensuing 23 years, the frequency of midair collisions has steadily increased—from 16 in 1958, 13 in 1959, to an average of 30 per year in the 1970s. And, according to a 29-month study by the National Aeronautics and Space Administration, there are more than 1,100 near-collisions each year—nearly two-thirds of them near airports. As the number of active aircraft doubles over the next nine years (the FAA's own projection), the threat of midair collisions will grow.

There is even worse news, however: *a large percentage of those collisions could be prevented.* In fact, an effective, inexpensive electronic "black box" that warns pilots when they are on a collision course has been available *since 1976.* According to former FAA official James Pope, it would have prevented the fiery collision between a Cessna 172 and a PSA 727 over San Diego, which killed 144 people on September 25, 1978. But the FAA, for bureaucratic and political reasons, has quashed this privately developed system. Instead, it has been and still is developing its own Threat-Alert Collision Avoidance System (TCAS) that stands to cost taxpayers and aviation users nearly $3 billion over the next decade. By contrast, the Honeywell Airborne Collision Avoidance System (ACAS) could have been in place by now—for about $500 million.

Is the FAA's hugely more expensive TCAS at least more effective than the system it squelched? Unfortunately, it is not. The FAA's system has so many flaws, in fact, that it calls into question the system's value at any price.

TCAS is designed to make use of an electronic identification device called a "transponder," already carried by three-fourths of all planes. The purpose of a transponder is to identify—uniquely—each particular plane on an air traffic controller's radar scope. Instead of showing up as just a blip, a transponder-equipped plane shows up as a blip with an ID number beside it. Ground stations periodically send out an interrogation signal, and the plane's transponder

Transponder Equipment in US Aircraft, by Type

(as of December 1980)

Equipment Type	Defense Department	Airline	Large Corporate	Active General Aviation	Total	Percentage of All Aircraft
ALTITUDE ENCODING TRANSPONDER	20,000	3,800	10,600	56,400	90,800	32.5%
NON-ALTITUDE ENCODING TRANSPONDER	0	0	0	119,000	119,000	42.6
NO TRANSPONDER	0	0	0	69,400	69,400	24.9
TOTAL	20,000	3,800	10,600	244,800	279,200	100.0

SOURCE: Statistical Information Office, Federal Aviation Administration

radios back its ID number. Military planes, airliners, and corporate jets have more-sophisticated transponders that also report the planes' altitude when interrogated.

The FAA's TCAS is a black box that would be added to planes. A TCAS-equipped plane would be able to detect other planes by interrogating their transponders. Under this system, however, 25 percent of all airplanes—those without transponders (see table above)—would be invisible to TCAS. And in the case of another 43 percent—those whose transponders don't report altitude—only their presence *somewhere* in the vicinity could be detected by TCAS. This is the first problem with the FAA's system.

There are also unresolved problems with TCAS becoming overloaded in areas with heavy air traffic, precisely the places where collision avoidance is most needed. And the sobering fact is, as reported by NASA, that 65 percent of midair near-collisions occur around airports. TCAS will also require an air-ground data link before it is fully operational, but this system, according to FAA Administrator J. Lynn Helms, won't be in place until the "mid- to late 1980s."

There are two versions of the FAA's system: TCAS-I, costing $2,500, for small airplanes; and TCAS-II, costing $50,000, for air carriers and corporate and military craft. A $3,500 "deluxe" version of TCAS-I is also planned.

TCAS-I isn't really a collision *avoidance* system. It is a proximity warning indicator that is sensitive only to transponder-equipped airplanes. It advises a pilot when another such airplane is in his vicinity but doesn't tell him where it is (unless the other plane is equipped with the costly TCAS-II). Nor can it give instructions for an evasive maneuver. So a pilot flying in the clouds, for example, can be warned that a collision is possible but have no means of avoiding it. If a threat airplane doesn't have an altitude-encoding transponder, an alarm will be sounded even if it is thousands of feet above or below the TCAS-I plane. TCAS-I also requires that a station interrogate non-TCAS airplanes, and many areas are out of range of ground stations. The capabilities of the versions of TCAS (as well as the privately developed ACAS) are laid out in the table on page 39.

Like its less-sophisticated version, TCAS-II requires that threat airplanes have transponders to be visible. If a threat airplane does not have an altitude encoder, TCAS-II gives range and bearing information only. So again, airplanes passing thousands of feet above or below would indicate a collision threat. If the threat airplane does have an altitude encoder, TCAS-II indicates range, bearing, and altitude and provides an uncoordinated evasive maneuver. Only if the threat airplane also has TCAS-II are evasive maneuvers of the two planes coordinated.

TCAS has other serious weaknesses. Most small planes with transponders have one, bottom-mounted, antenna, placed as it is so that ground interrogations won't be shielded by the airframe. FAA contractor Lincoln Laboratories estimates that in 4 percent of encounters, the transponder antennas on small planes would be shielded by the airframe from TCAS interrogating from above. Probably the simplest and cheapest way to add a top antenna would be to install another transponder—at a cost of $800-$1,500 per airplane.

TCAS is but the latest in a series of FAA collision avoidance proposals, the most recent previous to TCAS being the Beacon Collision Avoidance System (BCAS). Like TCAS, BCAS was transponder-based, but too many transponder interrogations were causing system overloads in heavy air traffic. Frequent false alarms resulted, and there was a danger that the overloads could disable the air traffic control (ATC) system for periods of time.

Apparently even the FAA realized, though, that a collision avoidance system that doesn't operate well in areas of heavy traffic isn't really a collision avoidance system. Accordingly, one of the changes proposed for TCAS is something called "sector interrogation." Instead of risking information overload by looking everywhere at once, TCAS-II is to search the sky by interrogating one sector (for example, 45 degrees) at a time, in rapid succession.

There are at present about 600 interrogating ground stations in the United States, and the system is close to saturation in some areas. When TCAS is operational, there will be additional thousands of prospective interrogators. TCAS-II has not been flight-tested, nor will it be tested in an environment with hundreds of other TCAS-equipped interrogators. Until TCAS has been fully flight-tested, the question of overload and false alarm remains an open one.

Due to TCAS-II's high price tag, most private planes will never be equipped with it. So we are faced with this odd scenario: 700,000-pound 747s, which aren't very maneuverable, making TCAS-generated evasive maneuvers to avoid colliding with small planes, which are highly maneuverable. One could as well envision a heavily loaded supertanker dodging about water skiers and fishing boats as it made its way through a crowded harbor.

Finally, TCAS, which is an attempt to rectify previous inadequacies in FAA-designed collision avoidance systems, is still in the design stage. If, contrary to previous performance, the FAA is able to maintain its timetable for TCAS, the first production models still won't be in cockpits until 1985. Production of the privately developed ACAS, which was already tested, could have started in 1976.

PROTECTING THE FAA

The FAA has laid a great deal of emphasis on requiring that any collision avoidance system be "compatible" with the FAA-run air traffic control system. What the agency means by this is that the air traffic controller has to be involved in everything. If it had its druthers, the FAA would place *all* decisionmaking on the ground, despite the fact that the semiconductor revolution makes possible miniature airborne computers of amazing complexity. As a compromise, the agency has insisted that any collision avoidance system include a data link between air and ground to keep the air traffic controller in the decisionmaking loop. At the same time, the FAA recognized the need to address the problem of overloading and false alarms. Experienced government watchers will have guessed that the solution of choice was to spend more money. In an effort both to solve false-alarm problems in high density areas and to provide an air-ground data link, the FAA planned a system called Discrete Address Beacon System/Automatic Traffic Advisory and Resolution Service (DABS/ATARS).

DABS enables automated messages to be sent via transponder to individual airplanes by virtue of their "discrete addresses" (ID numbers). ATARS is a ground-based computer system that determines whether an airplane represents a collision threat to another plane. If so, it sends an automated message via DABS, commanding an evasive maneuver to resolve the conflict, and informs the human controller of the problem and its solution. According to Rep. Robert K. Dornan (R-Calif.), who has introduced legislation prodding the FAA to end 20 years of waffling on the collision avoidance issue, the FAA had planned to spend between $500 million and $1.5 billion to implement DABS/ATARS.

If TCAS false-alarm problems are solved by sector interrogaton, however, the conflict-resolution portion of ATARS will no longer be necessary. And in fact, Dr. Clyde Miller, chief of Separation Systems for the FAA, says that in December 1981 the FAA tabled plans for resolution service, and ATARS has been transformed into Automated Traffic Ad-

How the FAA's TCAS Stacks Up against Honeywell's ACAS

EQUIPPED AIRCRAFT	THREAT AIRCRAFT	TYPE OF WARNING
Basic TCAS-I	No transponder	*None*
	Non-altitude-encoding transponder*	*Proximity only*
	Altitude-encoding transponder*	*Altitude-filtered proximity*
	TCAS-I	*Altitude-filtered proximity*
	TCAS-II	*Bearing, range, altitude, and TCAS-II alert and advisory through data link*
Deluxe TCAS-I	No transponder	*None*
	Non-altitude-encoding transponder*	*Proximity only*
	Altitude-encoding transponder*	*Proximity and "above/below" altitude advisory*
	Basic TCAS-I	*Proximity and "above/below" altitude advisory*
	Deluxe TCAS-I	*Proximity, "above/below" altitude advisory, and approximate bearing*
	TCAS-II	*Bearing, range, altitude advisory, and TCAS-II alert and advisory through data link*
TCAS-II	No transponder	*None*
	Non-altitude-encoding transponder	*Range and bearing*
	Altitude-encoding transponder	*Range, bearing, and altitude*
	TCAS-I	*Range, bearing, altitude, and advisory to TCAS-I through data link*
	TCAS-II	*Range, bearing, altitude, and coordinated evasive maneuver through data link*
ACAS	No transponder	*None*
	Non-altitude-encoding transponder	*None*
	Altitude-encoding transponder	*None*
	ACAS	*40-second time-to-collision warning, 25-second command of coordinated evasive maneuver*

**Assuming threat aircraft's transponder is within range of and being interrogated by a ground station, which retransmits threat information to the equipped aircraft via data link.*

visory Service (ATAS). DABS, in turn, has been redesignated Mode S. That same month, FAA Administrator Helms announced plans to construct 137 Mode S/ATAS sites in the United States, with completion in "mid- to late 1980s." Mode S will serve as the air-ground data link between TCAS-equipped airplanes and controllers. What the "advisory service" will do is unclear. It is certainly possible that ATAS will serve to keep ATARS alive, perhaps for revival to solve intractable TCAS overload problems.

Although cheaper than ATARS, ATAS is still far from inexpensive. With 137 sites costing an estimated $1.5 million each, the total bill will be $205.5 million—*and* the FAA could seek to build additional sites. Previous plans called for building nearly 300 ATARS sites.

And construction costs are only the beginning. Systems require maintenance and more controllers. More controllers require more supervisors, and so on. (It's especially ironic that the FAA remains committed to this ground-based system in the wake of the controllers' strike and the resulting shortage of trained controllers.)

Earlier versions of TCAS were criticized for relying too heavily on ground installations for collision protection. According to Helms, TCAS operates "without dependence on any ground equipment." This is only partially true. Only TCAS-II can operate independently of ground stations, and only about 12 percent of all airplanes (military, airlines, and large corporate airplanes) can be expected to have TCAS-II. TCAS-I-equipped airplanes require that a ground station interrogate non-TCAS airplanes. And if, as Helms says, TCAS is not dependent on ground equipment, why construct a series of ground stations to provide a data link between TCAS airplanes and the ground?

WHAT THE FAA TURNED DOWN

Honeywell's ACAS has none of TCAS's specific weaknesses. Its apparent drawback is that, despite its much lower cost, it would have to be installed in all airplanes that are to be protected, whereas TCAS provides at least minimal warning of non-TCAS airplanes that have a transponder (see table on p. 39).

ACAS would send and receive signals to and from other ACAS-equipped airplanes in the vicinity. A built-in computer analyzes each signal in terms of altitude, range, and rate of closure. If a potential collision is determined, the system coordinates evasive climb/descent maneuvers that are commanded on an instrument in each airplane. Internal FAA documents acknowledge that no additional FAA ground systems would be required for ACAS to function.

The system was flight-tested and evaluated by the Naval Air Development Center and analyzed by the Mitre Corporation, an FAA think tank contractor, between 1972 and 1975 at a cost of $11 million. A former FAA collision avoidance expert, Thomas S. Amlie, summed up the field tests this way in testimony before a congressional subcommittee on April 3, 1981: "The key point to be made is that the Honeywell system worked very well." Calculations by the Mitre Corporation showed that ACAS would be far more effective than the FAA's BCAS (the earlier version of its present system). And the FAA estimated that ACAS could be fully operational by 1983-84. Yet the FAA scrapped it for TCAS/DABS/ATARS. Why?

James Pope, a former high-level (GS-15) FAA employee who delights in a well-turned phrase, thinks he has the answer. He calls it NIH—Not Invented Here. It is Pope's contention that the FAA has deliberately stifled the adoption of ACAS for two reasons: so that DABS/ATARS might be preserved, and so that an FAA-developed, not privately developed, collision avoidance system would be adopted.

There can be no doubt that the FAA was aware of ACAS's superiority. On December 16, 1975, an FAA Executive Committee held a meeting to formulate policy preparatory to reporting on collision avoidance to Congress. The "FOR OFFICIAL USE ONLY" notes from this meeting make clear the bias of James Dow, then administrator of the FAA: "He [Dow] feels FAA must be prepared to give a full accounting to Senator Cannon, who

The Cost of Collision Avoidance: TCAS vs. ACAS

TCAS

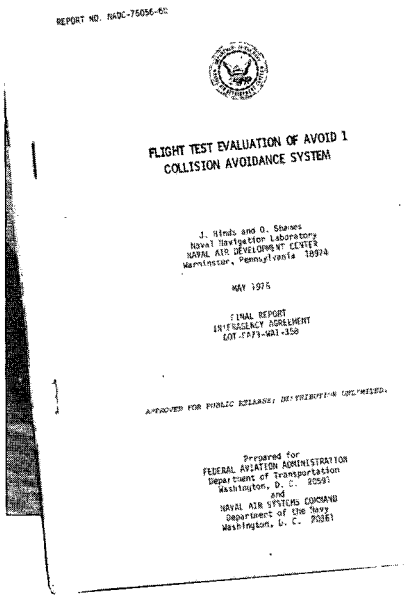
Type of Aircraft	Number of Units	Type of Avionics	Unit Cost of Avionics	Total (in Millions)
DEFENSE DEPT.	20,000	TCAS-II	$50,000	$1,000.0
		ATAS	8,500	170.0
AIRLINE	3,800	TCAS-II	50,000	190.0
		ATAS	8,500	32.3
LARGE CORPORATE	10,600	TCAS-II	50,000	530.0
		ATAS	8,500	90.1
GENERAL AVIATION	56,400	Deluxe TCAS-I	3,500	197.4
		ATAS	500	28.2
GENERAL AVIATION	119,000	Basic TCAS-I	2,500	297.5
		ATAS	500	59.5
TOTAL				2,595.0
MODE S/ATAS GROUND STATIONS				205.5
TOTAL FOR TCAS SYSTEM				$2,800.5

ACAS

Type of Aircraft	Number of Units	Type of ACAS	Unit Cost of ACAS	Total (in Millions)
DEFENSE DEPT.	20,000	High-Performance	$ 8,400	$168.0
AIRLINE	3,800	Air Carrier	16,600	63.1
LARGE CORPORATE	10,600	High-Performance	8,400	89.0
GENERAL AVIATION	175,400	Low-Performance	1,200	210.5
TOTAL FOR ACAS SYSTEM				$530.6

instigated the report, and that a large part of the discussion will deal with the elimination of ACAS, in view of the fact that three ACAS systems have been tested and one of them [Honeywell's ACAS] meets all the objectives of the agency."

In 1976 the Mitre Corporation formally reported to the FAA on a study that compared ACAS head-to-head with BCAS and DABS/ATARS. In the study, Mitre evaluated 494 actual midair collisions to determine the potential of each system. The existing ATC system itself *could* have prevented 118 of the midairs. Adding BCAS would have increased this total to 120 (a net gain of only 2); adding DABS/ATARS would have prevented 190 (a gain of 72). Adding ACAS to the ATC system, however, would have prevented 228 midairs, a gain of 110 avoided collisions compared to *2* for BCAS alone.


REPORT NO. NADC-75056-60

FLIGHT TEST EVALUATION OF AVOID 1 COLLISION AVOIDANCE SYSTEM

J. Hinds and O. Staines
Naval Investigation Laboratory
NAVAL AIR DEVELOPMENT CENTER
Warminster, Pennsylvania 18974

MAY 1976

FINAL REPORT
INTERAGENCY AGREEMENT
DOT-FA73-WAI-350

APPROVED FOR PUBLIC RELEASE; DISTRIBUTION UNLIMITED.

Prepared for
FEDERAL AVIATION ADMINISTRATION
Department of Transportation
Washington, D. C. 20591
and
NAVAL AIR SYSTEMS COMMAND
Department of the Navy
Washington, D. C. 20361

The only circulating copy of an FAA-suppressed report that cleared Honeywell's system for take-off in 1975.

Another Mitre report on September 30, 1975, concluded that, for purposes of collision avoidance, the FAA's ATARS "would not be needed in an ACAS environment." And this, according to Pope, is the crux of the issue. He attended many of the high-level policy meetings during this period and says that the FAA feared that ACAS, if introduced, would cut the ground from under DABS/ATARS. The FAA could see hundreds of employees and a billions-of-dollars project slipping through its fingers. Disgusted with the situation, Pope started to take the facts public.

DRUMMING UP A REASON

In answering critics such as Pope, the FAA relies on three main criticisms of ACAS: it gives an unacceptable number of false alarms; all airplanes must be equipped for the system to be effective; and it is "incompatible" with the present ATC system. A careful look at these FAA objections gives credence to Pope's assertion that the FAA scuttled ACAS so that DABS/ATARS might be preserved.

False Alarms. ACAS did give some false alarms during prototype testing—about one per hour. Airline cockpits are equipped to give 20 or more aural or visual warnings, and scarcely a flight is conducted without at least one spurious warning. The purpose of warnings is to call the pilot's attention, not to certify that a problem indeed exists.

The Seattle Times

Whistleblower James Pope

Air traffic controllers frequently notify pilots of uncontrolled traffic for which they have no altitude information. The majority of this traffic is never seen, and the controllers' advisories are in every sense "false alarms," yet there is no tendency for pilots to ignore them. The consequences of a midair collision are just too great to do so.

In the mid-1970s a Ground Proximity Warning System (GPWS) was introduced. Within eight months of the date GPWS hardware became available, all air carriers were equipped with it. The GPWS, too, gives a fair number of false alarms, yet the number of incidents involving air carriers colliding with the ground has been dramatically reduced since their introduction. The fact that they give some false alarms has not detracted from their usefulness.

Even so, it is desirable that any warning system give only a minimum of false alarms so that the pilot's attention is not distracted from more important tasks. Honeywell made some changes in 1975 that would reduce the number of ACAS false alarms to one every 1,000 hours. That's one false alarm for every four months of normal airline operation.

When ACAS gives a false alarm, only one or two airplanes are affected—the airplane or airplanes receiving the false alarm. Since TCAS alarms are coordinated with ATC via the data link, one false alarm could affect all other airplanes in the area.

The FAA claims to have solved the TCAS false alarm problem, but demonstration of its solution is still in the future. In the first 150 hours of TCAS testing on board a Piedmont Airlines 727 this January, two out of four threat warnings were false alarms. Compared to TCAS, at least as demonstrated so far, ACAS is virtually free of false alarms.

Equipping all airplanes. For two airplanes to be warned of an impending collision, each must be equipped with something that can communicate with the other. For ACAS to operate, each airplane must have an ACAS computer on board. How many airplanes would or would not adopt ACAS is a legitimate question.

There are several ways the problem could be solved. First, all airlines and the military are committed to installing whatever collision avoidance system is designated as the national standard, so within a year or so after hardware became available, all air carriers and military craft could be protected from one another. Corporate airplanes could be expected to follow suit for liability and insurance reasons.

It is easy to understand that many owners of small airplanes, especially those who fly only infrequently or in isolated areas, may be reluctant to invest $1,200 for ACAS. The solution is simple. The FAA presently reserves great chunks of airspace and most major airports for specially instrumented aircraft. For example, aircraft flying above 18,000 feet are required to have a transponder and distance measuring equipment. A transponder is also required to enter the vicinity of most major airports. In a similar fashion, the FAA could prohibit planes not having ACAS from routes and airports used by ACAS-equipped airplanes. Those flying in areas where ACAS was not required would be accepting the risk of collision voluntarily.

The need to impose operational restrictions on non-ACAS planes to make the system work effectively is probably the most important *political* reason for the FAA's opposition. Private fliers, through their organization—the Aircraft Owners and Pilots Association (AOPA)—are intensely opposed to any restrictions on their freedom to operate. In the past they have lobbied against many equipment requirements (for example, transponders) and restrictions of access. Since the FAA

is highly sensitive to political pressures from Congress, and since AOPA has vocal members in every congressional district, the FAA is loathe to accept any system that requires further restrictions on the general aviation (private flier) community—even when that system is inherently simpler and costs only one-fifth as much.

That cost comparison is made in the table on page 40. The reasonable assumption is made that every airplane currently equipped with a transponder becomes equipped with collision avoidance hardware. In the case of TCAS, we assume that general aviation planes with altitude-encoding transponders choose the deluxe TCAS-I, while those with non-altitude-encoding transponders choose the basic TCAS-I. For ACAS, all transponder-equipped general aviation planes are assumed to install the low-performance model of ACAS. Using FAA estimates for the price of each type of unit, we can see that nationwide implementation of TCAS, together with the required ATAS ground stations and equipment, would cost $2.8 billion. Implementing ACAS on the same scale would cost only $530 million.

A good collision avoidance system should also protect US airliners while flying in foreign countries. There are few light planes flown in and out of international airports overseas. The problem of protection in foreign countries, then, is largely a matter of their airlines being equipped.

For several reasons, foreign airlines could be expected to install ACAS if it became the national standard. Most international routes for most airlines eventually come to the United States. Since ACAS would be required in all major US airports, the foreign airlines would have to equip their international planes with ACAS. There would also be insurance and liability pressures on foreign countries' domestic routes. Insurers will not sell liability insurance when liability has been predetermined. In a collision between an ACAS-equipped airplane and a non-ACAS airplane, the latter would almost certainly be found liable. No company could afford to accept such a risk.

Aircraft manufacturers design a "standard model" of a particular plane. The manufacturer charges to remove equipment that is part of the standard package. According to sources at Boeing, the net cost of an airplane having equipment deleted can in many cases be more than the cost of the standard airplane.

ACAS could have been installed in new airplanes starting in 1976, and it is highly unlikely that any customer would pay to have ACAS removed. Since the useful life of a large airplane is 12-15 years, virtually every large airplane in the free world would have been equipped with ACAS by 1990 if the FAA had adopted it.

Incompatibility with ATC. ACAS is completely independent of ATC. Commands are generated on board, and there is no need for a data link with the ground. The FAA finds this independence unacceptable because pilots may make ACAS-directed maneuvers contrary to instructions given by air traffic controllers.

The fact that ACAS is completely independent of ATC is actually a virtue. If a potential midair collision situation has developed, it is because ATC has *failed.* Because of its independence, ACAS can function despite controller error or inattention and despite power failure, computer failure, or communication failure.

ACAS gives a 40-second warning of impending collision and gives an evasion command at 20 seconds if the pilots haven't resolved the situation. Twenty seconds allows enough time for radio communication between pilot and controller, so that evasive maneuvers can still be coordinated with ATC under most conditions.

At present, collisions are avoided in two ways. ATC provides separation between airplanes flying under its direct control (called instrument flight rules—IFR). Pilots who are not under ATC control (visual flight rules—VFR) are expected to avoid other airplanes by "seeing and being seen." IFR airplanes are responsible for avoiding VFR airplanes. If an IFR airplane sees another airplane, either VFR or IFR, that is a collision threat, the pilot will make an evasive maneuver whether or not it is coordinated with ATC. There has never been a midair collision caused by one airplane deviating from ATC instructions to avoid another airplane. The likelihood of such a problem using ACAS is remote.

A BUREAUCRACY AT STAKE

ACAS works well; TCAS doesn't. ACAS is inexpensive and obviates the need for TCAS/Mode S/ATAS, which will cost billions. If it weren't for the whistle blowing of James Pope, this controversy would never have come to the public. The FAA would have quietly lined up its political ducks, used its regulatory powers to quash any private efforts toward collision avoidance, and added whole new divisions to its empire unimpeded.

The FAA power structure is furious at Pope for going public with the facts. Although he has an outstanding record of service to the aviation community spanning 17 years both in and out of the FAA, he became known within the FAA for his tendency to support individuals in conflict with the agency. This, and his outspoken criticism of several FAA programs, including collision avoidance, resulted in his job being eliminated in 1978.

Pope was reassigned to a position with no duties that was created expressly for him in Seattle—presumably as far from Washington, D.C., as the FAA could get him. While there, the FAA made life as difficult for him as possible, hoping to make him quit or to catch him in some error that could give them justification for firing him.

Pope lodged complaints with the FAA and the Department of Transportation regarding his treatment. In October 1981 the FAA, in a case of the fox guarding the hen house, announced that it had investigated Pope's allegations and was dismissing them for lack of evidence.

Rep. Patricia Schroeder (D-Colo.), chairwoman of the House Subcommittee on Civil Service, asked Secretary of Transportation Drew Lewis to monitor FAA Administrator Helms's treatment of Pope. Schroeder claims that "Helms has been quoted by others as saying that he will not tolerate whistle-blowers in his agency."

On March 31 and April 3, 1981, Pope testified during House hearings prompted by his charges that FAA is pushing an inferior and costly system. So far Congress has taken no action to stop the implementation of TCAS. Federal employees are politically powerful, and there is no organized opposition. Others with a political interest either are not going to have to pay for the FAA's system (airline pilots), are seeking to avoid paying for collision avoidance (small airplane owners and operators), or have made previous collision avoidance initiatives that have been stifled by the FAA (airlines and the avionics industry).

On December 18, 1981, Pope was fired by the FAA for a string of alleged misdeeds including insubordination and dereliction of duty. Not mentioned in the termination notice were the years Pope spent making the FAA more responsive to aviation users and the many awards he has received for outstanding service to the aviation community. Nor was there mention of Pope's campaign to keep the FAA from wasting billions of dollars on ineffective collision avoidance systems.

Meanwhile, the FAA's self-serving grip on aviation becomes firmer, taxpayers and airspace users foot the bill, and millions of lives are needlessly at risk. ◻

John Doherty is a commercial pilot with an 18-year background in both military and civilian aviation.

REASON's Annual Financial Section

George Gilder

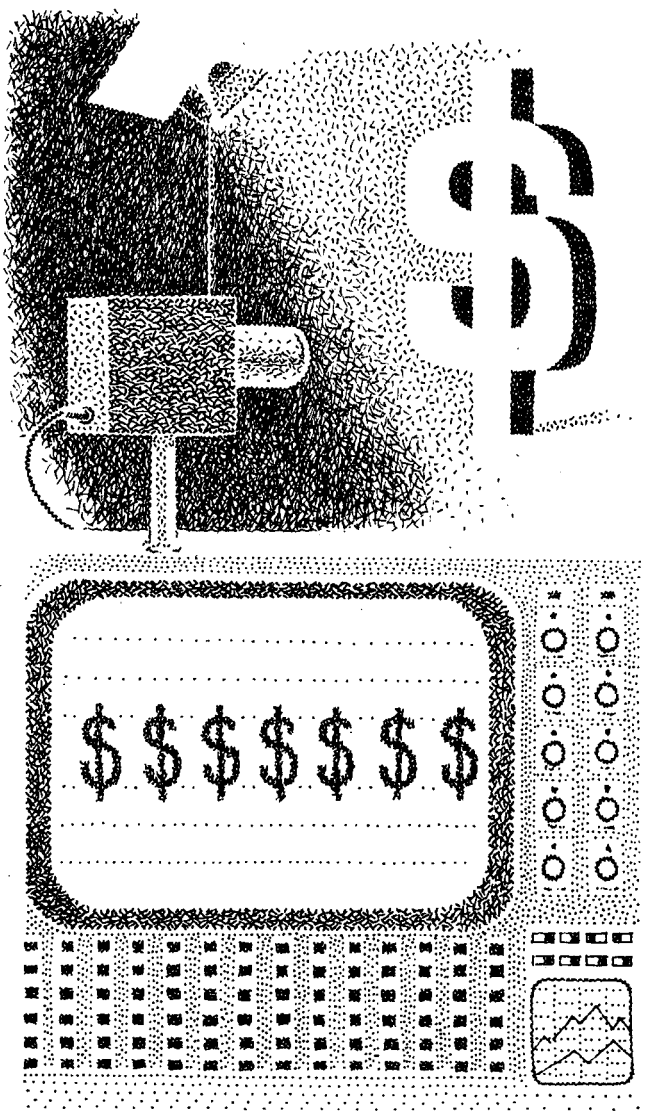
SUPPLY-SIDE INVESTING

Get ready for a high-tech future

WE ARE MOVING into the "Roaring '80s." This is not a period of sluggishness and stagnation like the one that we've just undergone in the '70s. This is a period of major transition and change in our economy and in the world economy, and we are going to look back on this period with wild surprise. We're going to see it as a unique window of opportunity for investment in the new frontiers of the economy, in the new companies that will shape our coming decades. We will look back with amazement that the shares of Intel Corporation, for example, were going for $25 and Amdahl for $19 and Semicon for $4. These are ridiculous underestimates of the value of major companies that are going to shape the future of the world in the coming decades. But to understand the promise of this period we also have to understand better what happened during the 1970s and why the sources of gloom that overcame the world economy during this period are now at last dissipating.

One of the most important sources of the psychological depression we underwent during the last decade was the belief that, in the energy crisis, world capitalism was somehow confronting fundamental limits of growth—that we were exhausting our material resources, that new profits and possibilities would all be captured by OPEC and by foreign countries and masters of physical resources. But today we can clearly see that the energy crisis is essentially over, that for the coming decades energy prices are going to go down, not up, and that the energy problem will be a decreasing force in all our lives. The energy crisis was essentially overcome, not by the big oil companies and by the Department of Energy, as we all know, but by the vitality of capitalism itself—by the development of all sorts of new technologies that pervade the system and increase the energy efficiency of virtually all equipment in the American economy.

On the supply side, the energy crisis was solved to a considerable extent by small companies. Perhaps the most important is one few of you have ever heard of. It was started in Canada in 1974 by two Americans; the leader, named John Masters. Masters had previously been a uranium geologist for Kerr McGee, and in this capacity he found the biggest uranium deposits in America, called Ambrosia Lake, in Utah. He thought that the principles that he had applied to find uranium could also be used to find natural gas. It's a fascinating story. Masters was unable to get any support from the major oil companies or from any major group with expertise in oil and gas. But today his company has probably found some 440 trillion cubic feet of natural gas in western Canada, and the principles he's applied in his geological searches have also opened the way to similar discoveries in the Overthrust Belt of the United States. But this is just one example of the energy developments that have high promise for the future



Illustrations by James Richards

and show that this particular source of gloom—the supposed energy crisis—is coming to an end.

A second source of discouragement was the idea that our economy was becoming fundamentally less productive—that somehow we'd confronted a genuine and profound productivity crisis that could not be overcome for years to come. It was believed that the movement of manpower from manufacturing to service industries would nullify the productivity gains that were earlier achieved by the movement from agriculture to manufacturing. But this is a profound misunderstanding of the process.

I first arrived at this conclusion while I was working at the National Center for Productivity and Quality of Working Life in Washington, D.C.. I discovered that during the 1970s manufacturing productivity rose by a total of 90 percent. Meanwhile, the productivity of offices, which are kind of the factory floor of service companies, rose by a total of only 4 percent in 10 years. And since we're increasingly becoming a service economy, this was a depressing set of statistics. But then I pursued the matter further and found that the very companies that had improved their own manufacturing productivity most during the '70s were largely devoted to producing equipment designed to enhance the productivity of offices—designed, in fact, to improve the productivity of the entire service sector of the American economy.

I think this equipment is now largely in place, and it's moving through the system in ever-greater quantities. All these word processors and distributed-data processors; all the audit equipment of the automated office, the electronic warehouse, and the computer-controlled assembly line—all these new forms of equipment are in place, and people are learning how to gain their real productivity yield. During the next decade we will make major increases in productivity as a result of these important developments.

PROBABLY MORE IMPORTANT from my point of view—or at least as important, because it permits these favorable trends to come to a favorable fruition—is the triumph of supply-side economics. Many people today laugh when you talk about supply-side economics. It's widely assumed that supply-side economics has already failed. But when you appraise the current economic situation, it's worth understanding that last year we had *no tax cuts at all.* In 1981 we had a 10-percent tax *increase* as a result of bracket creep. The problem of the American economy last year is really attributable to the failure to apply that first 10-percent tax cut when it was originally scheduled for application. Instead, taxes were permitted to rise again for another year—10 percent for the average taxpayer—as a result of bracket creep.

What we really underwent last year was *demand*-side economics—the assumption that we can ultimately balance the budget by allowing taxes to rise. This fact is generally not understood by the media or, indeed, by many economic experts. They still imagine that somehow tax cuts are a threat to the US economy because huge deficits will result. You can tell when analysts do not understand how these tax cuts will work when you hear them mention the size of the cut as somehow being $552 billion over the next four years, or $760 billion over the next five years. Whenever you hear people say that it's a $552-billion tax cut, the first thing you have to ask is, "Compared to what?" All these estimates of the size of the Reagan-administration tax cut are based on Carter-administration projections, which assume that people continue to produce and work and invest while tax rates rise by 46 percent over four years. This idea is obvious baloney, and all these estimates that the size of the tax cut has been $500 billion or $700 billion are false. The government never would have collected this money. Indeed, I'm assured that the government will get more revenues over the next five years under the Reagan-administration tax structure than it could have acquired by allowing taxes to rise every year.

Incidentally, this last proposition is often believed to have been disproven by the British experience, but in fact has been massively supported by the experience in Britain over the last couple years. What *actually* happened in Britain? Between 1976 and 1980, social-security tax rates rose by 50 percent. Everybody expected this to greatly increase the revenues available for social security. But, in real terms, revenues *declined* throughout that period. And, partly due to the fact that social-security taxes are a direct tax on work, unemployment soared. This is precisely what a supply-side economist would have predicted.

Prime Minister Thatcher also virtually doubled the value-added tax (VAT), and it was widely predicted that there would be a huge new influx of revenues from the increased tax. What *really* happened as a result of this policy? Did the doubled VAT bring in 70 or 80 percent more revenues, as all prevailing economists in England anticipated? No—revenues increased only 45 percent in real terms.

Mrs. Thatcher did, in fact, cut the income tax. Yet the British still have among the highest income taxes in the world. Their 60-percent rate strikes incomes of about $35,000, and their 75-percent rate is one of the highest levels on unearned income. But Thatcher did cut these rates from 98 percent and 83 percent, respectively. She thought, however, that she had to increase the VAT so much, because there would be a big drop in revenues from the income tax. But what happened with income-tax revenues after she cut the rates? At a time of a near-depression in the British economy—largely due to the huge value-added and social-security taxes that had been imposed on the system—revenues from the income tax *increased* in real terms for the first time in six years.

Ever since the Healy-Callahan government imposed the 98-percent and 83-percent income-tax rates, revenues had gone down every year, year after year. The first year revenues started going up again was 1980, a year of depression in the British economy, but a year when income-tax *rates* went *down.* So the British experience, contrary to what many people say, does not disprove supply-side propositions—it fully vindicates them. The results of the increased tax rates were precisely as a supply sider would have anticipated. The result of the tax cuts were precisely what a supply sider would have predicted.

STILL, IT'S REGARDED as a very grave portent for the US economy that our deficits seem to be going out of control—that deficit spending is somehow going to cause huge increases in interest rates, which in turn will strangle economic expansion. In order to understand why this will not happen, one has to understand the impact of the tax cuts; because in real terms, President Reagan has prevented a catastrophe—the vast expansion of taxes, which would have plunged the country into depression. The real tax cuts don't go into effect until 1983 and 1984. At that juncture, taxes really begin to come down.

We still have to appraise the meaning of the federal deficit. The first principle to understand about deficits is that what

matters is not the share of the deficit as a portion of GNP—not the size of the deficit as a portion of total national output—but the size of the deficit in proportion to *total national savings*. The Carter administration was very effective in reducing the deficit as a portion of GNP. The deficit dropped from about 3.6 percent to about 1 percent of GNP. This was a major success in controlling the size of the deficit by this measure. Because Carter achieved this result by allowing taxes to rise, however, the consequence was that personal savings declined to the lowest level of the last 30 years. As a result of this attempt to lower the deficit through higher taxes, inflation doubled and interest rates doubled. In other words, this policy of allowing taxes to continue to rise year after year, which has been proposed as the answer to our current predicament, will increase interest rates and inflation rather than reduce them.

A lot of people who talk about the rising costs—of oil, of food, of real estate—that we experienced during the '70s often assume that these items, which dominated the consumer price index, were the major factors of that inflationary decade. But the fastest-rising cost in the US economy during the 1970s was not fuel or food or real estate. The fastest-rising cost was *government*: taxes on every level—federal, state, and local.

We've had endless experience with the impact of higher taxes on inflation, federal deficits, and interest rates. The results are entirely negative, and that's why we have to move in the other direction—cutting tax rates in order to expand savings, which ultimately fund the deficit. If, while the deficit drops, savings drop more rapidly—as happened during the Carter administration—there is more inflationary pressure, that is, more pressure on the Fed to print money. The Reagan administration program is based on the proposition that when you reduce tax rates, savings increase; thus, the pressure on the Fed to print money declines, and the deficit, as a proportion of national savings—which is the crucial measure—steadily decreases.

The reason this proposition is true is that each marginal tax rate inhibits savings three ways. First, it taxes the very funds—marginal earnings—that an individual has the highest propensity to save. Each new dollar that you earn you are more likely to save than the previous dollar. Progressive taxes take away from the very dollars that you have the highest propensity to save. Second, high marginal tax rates deter people from *earning* the additional dollars they're most likely to save. And third, high marginal tax rates also tax the *returns* from savings at the highest possible levels. So, cutting marginal tax rates imparts a triple stimulus to savings but only a single stimulus to consumption.

After every major tax cut, whether in Japan, the United States, Germany, or Britain, savings always increase faster than the deficit. And, as a result of the cut in marginal tax rates, inflationary pressures that derive from the deficit steadily decline. This, of course, has been most striking in Japan, where they've cut taxes 18 out of the last 20 years, and every year savings increased. Every year, incidentally, tax revenues increased as well, and the savings rate rose from 17 to 24 percent during that period.

PERHAPS THE WORST MISCONCEPTION of supply-side economics that I've recently encountered is the idea that it somehow widens the gap between the rich and the poor. There are endless examples of the utter fatuity of that claim, but perhaps the best example comes from the 1920s, when the top income-tax rate was reduced from 73 to 25 percent in four years. All established economists during that period—or a great many of the liberal economists who even then dominated our economic discourse—predicted that these tax rates would radically reduce the taxes of the rich and increase the burdens on the poor. On the contrary, the tax payments in the top bracket *increased* by nearly 200 percent. The share of total taxes paid by the rich rose from 27 to 63 percent, and the share of taxes paid by the poor plummeted.

How can this be the case? If you consider it closely, you'll understand. The poor and middle class usually pay their taxes at source—that is, their taxes are withheld from their paychecks—so with across-the-board tax cuts, the poor and middle class actually pay less. The rich, however, have mobile money, and nothing can mobilize it faster than contemplating a 70-percent tax rate. People don't rise to the 70-percent tax bracket by being dumb, and when they face this kind of confiscatory rate it greatly concentrates the mind. They have an incentive to devote about 70 percent of their time to figuring out how to avoid these punishing rates of taxation, and they succeed.

So, contrary to what nearly everybody imagines, high progressive tax rates do *not* redistribute income. What progressive tax rates do is redistribute *taxpayers*. They redistribute money out of productive, dynamic investments in the industries of the economy and into off-shore tax havens and tax shelters of every description, into the underground economy, into leisure activities, into the purchase of Rolls Royces and collectibles—they redistribute wealth from productive activity into relatively unproductive activity.

I myself got a further understanding of this process during the course of writing *Wealth and Poverty*, when I interviewed businessmen. I didn't interview economists, because I thought that they had done enough damage already. So, just as when I wrote a book on poverty I interviewed hundreds of poor people, when I wrote a book on wealth I interviewed rich people or people in business who had made major contributions to the economy.

I learned a lot about the future possibilities of the American economy. It was exciting, because I discovered that beyond the gloom of the 1970s was an exciting new economy emerging on our horizons. I was frustrated, however, because I wanted to invest in it, but I didn't have any money.

Wealth and Poverty surprised me beyond all expectations, however, and began earning me lots of money. I then wanted to invest in the future of the American system, but what did I discover? No sooner did I acquire some money than I was beset on every side by people urging me to eschew this productive knowledge I had acquired during the course of writing the book. Instead, they told me all about the Cayman Islands, 1031 real-estate swaps, triple net real-estate leases, butterfly straddles, and every kind of intricate mode of avoidance of the productive domains of the US economy. They told me to invest in porno films, race horses, and cattle. I actually did invest in cattle, and I sit in my house eating breakfast, watching my tax shelters bound around in the field across the way depreciating like mad. The crucial thing I learned is that this happens to everybody who earns money in the US economy. And this strikes at the very dynamic crux of capitalism.

CAPITALISM IS NOT simply a matter of physical capital formation. The reason capitalism succeeds is that it joins knowledge with power. Every business is in essence an experiment—virtually a laboratory test of an entrepreneural idea—and the outcome is not predetermined. It's an experiment the outcome of which will shape future investment, for each business experiment has a double yield. It has a financial profit, on which everybody focuses in considering the economy; but it also has an invisible profit of knowledge.

(Continued on p. 60)

Douglas R. Casey

WHAT TO BUY IN THE COMING DEPRESSION

A speculator's guide to profiting from the crash

LET ME LAY IT on the line: the Greater Depression has started. I believe it may one day be called that because it is likely to make the unpleasantness of the 1930s look tame and insignificant by comparison. At the same time, it will probably be much different.

This forecast shouldn't come as a surprise to people who know the benefits of a free market. But at this point it should be taken seriously from not only an academic and theoretical but also an emotional and practical point of view.

Many who have some understanding of economics have for over a decade now been expecting, perhaps even planning their lives around, the coming collapse of Western civilization in general and its economic system in particular. The long-awaited retribution the free market "should" visit could have occurred as early as 1970 or in 1974. But each time, government planners have proved extremely clever at holding the system together with the financial equivalent of chewing gum and baling wire.

In fact, one might say that over the last 10 years they've even established a good track record at crisis management. That's something that may cause some complacency, even among those who know a well-deserved financial collapse is inevitable. They have been living with a bomb-shelter mentality for so long now that many are starting to second-guess themselves. Indeed, over the last 10 years, I suspect many have been more hurt than helped by their theoretical understanding of economics—thinking that that was all they needed to join the new class of millionaires that will be created by the collapse. It isn't.

The reason is that many have mixed investment with ideology, while alternating from complacency to frenzy, and that's a formula for failure in the market. Gold has been perhaps the most prominent example of this phenomenon.

I understand how hard it is to be objective about gold, but many people buy the metal for ideological reasons as much as for financial considerations. The ideological gold buyer believes he is doing his part to affirm capitalism and fiscal responsibility. His act defies the Washington socialists, affronts the *New York Times*, and raises the blood pressure of Federal Reserve Board members. He considers it an act to punish those who don't understand that a government can't inflate without consequences.

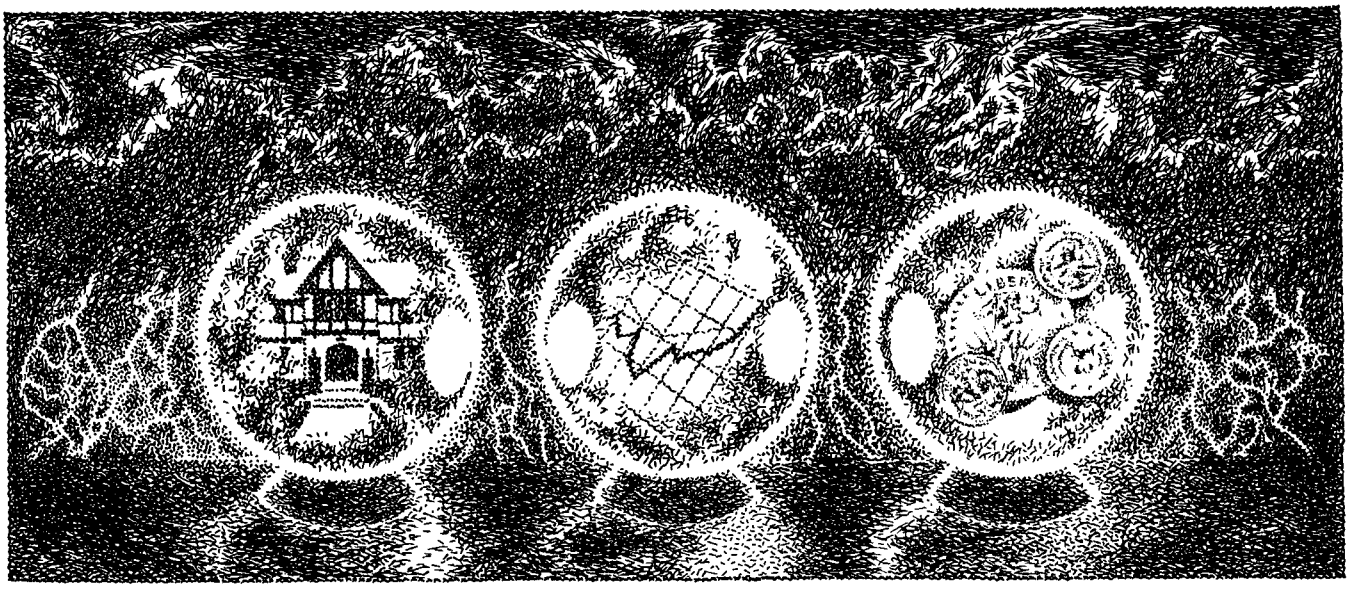
For many gold buyers, therefore, gold isn't just an investment; it's a political statement. That feeling is exactly why such buyers always get caught long in gold bear markets. Betting that the gold price will decline—even thinking it—shows a break of faith, they feel, in American ideals. They don't understand that "investment" and "ideology" are two different things. They don't understand that gold isn't a religious relic—it's a commodity. And because this approach to other investments tends to introduce the same distortion, they often make similar mistakes in other markets. They may understand political principles and economics, but they don't understand speculation.

IN ORDER TO CAPITALIZE on the markets of the '80s, you'll do well to adopt the attitude of a speculator who doesn't pass moral judgment on the way things are. A socialist sees government intervention as "good," a free marketeer sees it as "bad," but a speculator doesn't clutter his mind—or, his investment mind—with those opinions. He tries to maintain a scientific, "value-free" approach and doesn't mix investment with ideology.

In a stable free-market society, speculators would be far less prevalent. While there are always natural phenomena, changes in consumer tastes, and technological developments, a major present-day source of profit opportunities—government intervention in the marketplace and the distortions it creates—would be missing. The other side of this coin is that the 1980s have both good news and bad news for everyone. The bad news is that, in an inflationary, heavily taxed, and regulated society such as ours, one has to become a speculator out of self defense. The good news, however, is that the same governmental intervention creates plenty of opportunities to speculate successfully. There is nothing wrong with taking advantage of those opportunities. Price controls, manipulated interest rates, strikes, war rumors, subsidies, and hundreds of other politically related actions all pull the market in predictable directions.

Somehow, speculators have gotten the image of careless gamblers charging about in wild, frenzied activity. It's a totally inaccurate image, at least where the successful speculators are concerned. Good speculators are always low-risk speculators. Far from taking risks, speculators only go in for "sure things." They are rational and unemotional if they're successful; the irrational and emotional who like to gamble and take chances don't last long playing the game, and they soon become ex-speculators.

What will be good speculations? Let me cover two things you shouldn't do—and one you should.



FIRST: Stay out of real estate—the crash has a long way to go. Nor do I expect property to recover quickly, because it's such an illiquid investment. In the best of times, it can take months to sell, but in a chaotic environment it can be a drag on the market, hardly the type of ball a broken field runner wants to carry. It's hard to sell unless there's a boom on, and it's always expensive to sell. Commissions, fees, and transfer taxes can easily eat up 10 percent of the gross.

When I wrote *Crisis Investing* in 1979, a speculative boom was in progress. That crazy peak, in which people exchanged tales of housing values at cocktail parties, has passed, and prices have already dropped substantially since then in most parts of the country. But just because the top has passed doesn't mean that the bottom has come.

The price of houses today, however, shouldn't concern smart speculators, because smart speculators wouldn't own one—at least not as a speculation, because it's now only a consumer good. If you want a house, if it gives you pleasure and you can afford it, buy it and hope for the best; but don't count on it for an old-age pension as most of your neighbors have done. Perfectly sensible people who wouldn't think of buying $40,000 automobiles or $1,000 suits have bought $250,000 houses on their $30,000 salaries. Somehow they can see the expensive suit or car as living above their means, but not the house, because they've talked themselves into believing they're investors. Such is the stuff of economic collapse for a society and bankruptcy for the people who indulge in it.

There are those who counsel that when you rent all you're left with is a stack of rent receipts. But, in addition to their receipts, renters today have a stack of cash they haven't had to pay out. For the next several years, the renter will be in the catbird seat, since he will have neither the huge carrying costs nor the liability that goes with ownership.

The average house in many parts of the country now costs about $100,000. Invested in Treasury Bills, that $100,000 could yield $15,000 a year, enough to rent the same house for about $500 per month (or $6,000 per year) and have $9,000 per year left over. If they save that cash, they'll be in a position to buy houses soon, when the market collapses, because everyone else is mortgaged to the hilt, and the mortgage market itself will soon cease to exist.

THE PRICE OF HOUSING and the cost of mortgage money are closely related, like opposite ends of a seesaw. Throughout the '50s, '60s, and early '70s, loans were made to aspiring homeowners on the basis of their income and ability to pay the mortgage. Houses were "affordable" up to about 1976, before they began escalating almost geometrically in price at the very same time interest rates started their move from 9 percent to 18 percent. The more unaffordable housing became, the more people had to borrow to buy it. The table below shows why people will soon be unable to buy, even if loans were available.

Although the price of houses has gone up almost three times since 1970, the cost of buying a house has gone up almost six times. In real terms, counting increased incomes, the net cost of buying a house has gone up two and a half times.

According to the Department of Housing and Urban Development, in 1970 half the families in the United States could afford a medium-priced new house. By 1980, less than 13 percent could. By 1981, the figure had fallen to 5 percent. And most of these families could "afford" the house only if they could get a high-priced mortgage.

Paradoxically, inflation, the very thing that people are counting on to present them with profits, is instead going to present them with huge losses, since inflation will destroy the mortgage markets. And without borrowed money, nobody can buy—or sell—a house. Money will flow wholesale out of lending institutions in the 1980s as the inflationary depression deepens; people will stop saving, and banks will have no

THE COST OF HOUSING, 1970-1981

Year	Median Price of New Single-Family House	Monthly Mortgage Payment	Average (effective) Mortgage Interest Rate	Median Annual Family Income	Mortgage Payments as % of Monthly Income
1970	$23,400	$150	8.38	$ 9,918	18.1%
1971	25,200	152	7.69	10,338	17.6
1972	27,600	165	7.53	11,173	17.7
1973	32,500	200	7.97	12,113	19.8
1974	35,900	239	8.96	12,902	22.2
1975	39,300	264	9.13	13,719	23.1
1976	44,200	296	9.07	14,958	23.7
1977	48,800	328	9.02	16,009	24.6
1978	55,700	403	9.59	17,640	27.4
1979	62,900	489	10.85	19,684	29.6
1980	64,600	569	12.84	21,650	31.5
1981	69,800	875	16.00	23,000	45.6

money to lend.

If actions have consequences and causes effects, then the expanding crisis in real estate is predictable and inevitable, and it's just the beginning of the collapse. Real estate will be the 1929 stock market look-alike by the time the final bottom comes.

Every real estate booster feels that he has a few aces in the hole that he expects will bail him out. "Pent-up" demand is popular at the moment as a straw to grasp at, although I don't know why. Anyone who looked at the figures would see that the total net population of the United States increased by only 14 million persons from 1970 to 1980, while there were 15 million new housing starts in the same period. Hardly the making of a shortage; rather, a glut.

The housing glut will become evident as the standard of living drops. Lots of "swinging singles" and "young professionals" who are now stylishly living alone in two- and three-bedroom dwellings are going to move in with friends or relatives. Where there was a "demand" for three spiffy townhouses, there will suddenly be a demand for only one, and the other two will either come onto the market for sale or become unrented albatrosses around the neck of an overextended landlord before going onto the market a little later.

Most people still believe that the softness of the market since 1980 is just another "healthy correction" in the 30-year, post-World War II bull market. Don't let them confuse the issue. They'll be the same ones who will think real estate's dead forever after the bottom comes. Be grateful to them for acting as stewards over your property until you can buy it from them for lower prices. New fortunes will be made by those who are shrewd enough to hold their fire until the bottom of the market falls out. Markets fluctuate; real estate's day has gone, but it will return, although probably not before the mid-1980s and from half of today's real-dollar levels. Smart speculators will wait until then. And they'll be very careful what money market funds they'll put their dollars in until then.

MONEY MARKET FUNDS are the free market's answer to a banking system at the point of collapse. Unfortunately, some of the funds are going to go the way of the banking system. These constitute the second category of investments you want to stay out of.

Most investors seem to think that the money market funds are riskless; they don't seem to understand that funds invest heavily in high-risk, high-yield paper. The public thinks the "best" fund is the one that pays the highest yield, and it's no coincidence that that's usually the riskiest fund. Once again, the public will be taken to school and given a lesson it won't soon forget.

It will be interesting to see what happens when a few funds (actually it's likely to be more than a few when it happens, since most hold the same type of paper) experience some defaults. After some assets are wiped out, the public will start redeeming en masse, which will have some unpleasant consequences for the banks and corporations that have been counting on this pool of funny money to keep rolling over their paper. The default of a few borrowers could cause a credit crunch of unbelievable proportions as other corporations looking to the funds for cash find there's none available. And that would bring on more defaults, which would bring on even more, and so on, ad bankruptium.

Remember that money market funds are mutual funds, only they invest in short-term debt, not stocks. The paper an MMF buys can default. There are seven classes of MMF assets: US Treasury obligations, US government agency obligations, repurchase agreements, bankers' acceptances, certificates of deposit, international certificates of deposit, and commercial paper. The only acceptable MMFs are those that have 100 percent of their assets invested in either Treasury or federal agency obligations or repurchase agreements backed by them. Their yield is generally a bit less, but it would be tragic if you traded safety for a few points of yield today. This entire area could develop into a tragedy for the small, naive saver.

But if real estate is a no-no and only a few money market funds are acceptable, where should you put your money? I believe the answer is the least obvious place to look during the Greater Depression: the stock market. And that, it's no coincidence, is why it will soon be the best place to be.

I WAS VERY BEARISH on most stocks when *Crisis Investing* was written in 1979. Now, despite the fact that the fundamentals underpinning American business in 1982 are far worse than they were then, I'm looking forward to a time to cover my shorts and buy.

By the end of 1982 the stock market will probably have experienced most of its long-awaited crash. There's little point, therefore, in dwelling on the dangers of the market; most of them already have been realized. Let's concentrate on the profits ahead. The bottom line, despite the continuing collapse of the economy during the years ahead, is that the stock market will boom by the mid-1980s.

In countries with terminal inflation, like Argentina and Israel, everybody who has any spare cash at all is a stock player. It's not only because everybody is forced to speculate but because, as in America, capital gains are given tax preferences, and money made in the market is worth a lot more than salary or interest income.

In this type of hectic environment, the most-liquid mediums tend to be the preferred ones, and funds will flow into stocks because stocks are an ideal speculative medium. But there are other reasons, too.

People will want to be in the stock market because they won't want to be in the alternatives. A flight from currency seems almost certain to occur, and there's a good chance that foreign-exchange controls will be imposed about the same time. Both should benefit securities greatly.

By the mid-1980s, as inflation goes to 30 percent and above, Americans will finally realize en masse that the dollar has been not only the unfortunate investment in the past but the worst possible place to keep assets for the future. In 1982, though, most of the country's net wealth is still held in dollars—cash, bonds, Eurodollars, and mortgages.

Despite the economic collapse all around them, stocks could explode upward simply because that's where a lot of the money leaving dollars will go. Stocks, at least, represent equity.

If this scenario sounds unlikely, remember it wouldn't be the first time. The German stock market lost on the order of 95 percent of its real value from 1918 to 1923 and then moved up by a factor of 10—in real terms—in November 1923, the worst month of that country's famous runaway inflation. But let's hope that's too drastic an example.

Italy provides a more recent and moderate comparison. The US economy is being Italianized; high inflation, high taxes, a

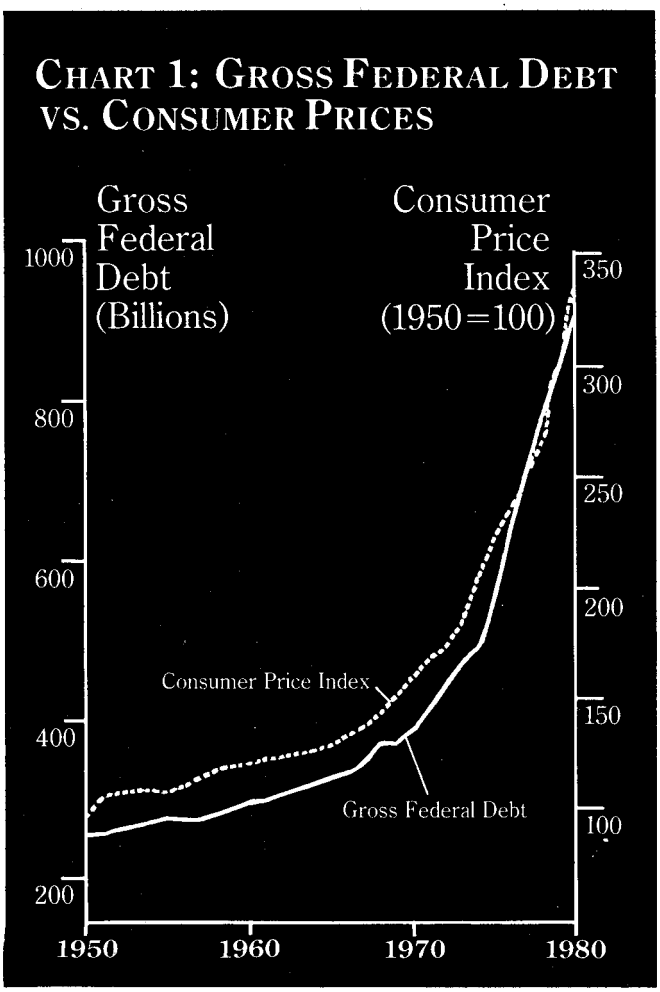
(Continued on p. 57)

Mary Anne Aden-Harter
& Pamela Aden-Ayales

THE GOLDEN RULE OF INTEREST RATES

What can the yellow metal tell you about the price of money?

THE GOLD PRICE is not usually thought of as a leading economic indicator, but it turns out that that is exactly what it is. By following the price of gold over the long term, you can be alerted to changes in the major economic trends several months in advance. For example, gold leads interest rates; the correlation between the two has been in existence ever since gold began fluctuating in the free market 14 years ago. In order to understand this long-term relationship, it is necessary to begin by looking at certain variables and how they relate to one another within the US economic cycle.



The mid-1960s was a major turning point. At that time the government greatly increased spending and debt by fighting the Vietnam war and expanding social programs at the same time. This time period can be distinguished as the beginning of the unprecedented rise in both debt and inflation.

Chart 1 shows US Gross Federal Debt plotted with the Consumer Price Index (CPI), the common inflation index, since 1950. Since 1967 (see arrow), debt and inflation have continued to expand at an unprecedented rate. This chart clearly illustrates the parallel growth in the two; they move up together almost identically. Both are moving in steep, long-term uptrends, with the expansion of debt fueling inflation.

The inflation index on Chart 1 appears to be a nearly straight line up, void of any specific cycle. A totally different picture emerges, however, when we look at Chart 3C, the CPI Inflation Rate Velocity Index, plotted since 1967.

The velocity of any index—how fast it's changing—is plotted on a plus or minus basis in relation to a zero line; most velocities normally cross this line from time to time, indicating a reversal in trend. The velocity of inflation, however, has not been oscillating as other indices do; it has been positive and far above the zero line since 1967, indicating not only that the CPI's major trend since that time has been up but that its growth has been at a nearly exponential rate.

Because the velocity index "blows up" both the long-term trend and changes in the growth of the CPI, the major inflation cycle can be seen. Most apparent is that there has been a consistent pattern of peaks and troughs since 1967. This cycle is not casual: a movement from peak to peak occurs approximately every five years. Each cyclical peak is higher than the previous peak, and each cyclical trough is also higher than the previous trough, thus forming a large, upward-moving "channel," with each progressive cycle becoming more volatile. This cycle, from trough to peak to trough, illustrates, and is a key part of, the economic cycle.

In general, within the inflation cycle, there are inflationary phases up, followed by recessionary phases down. The recessionary phases, however, are nothing more than a "slowing down" of inflation and not major trend reversals. We are currently in such a slowdown period; but keep in mind that the velocity of inflation is still positive, and the major trend is definitely up.

Next, let's take a historical look at another component of the economic cycle, interest rates. Chart 2 shows three short-term

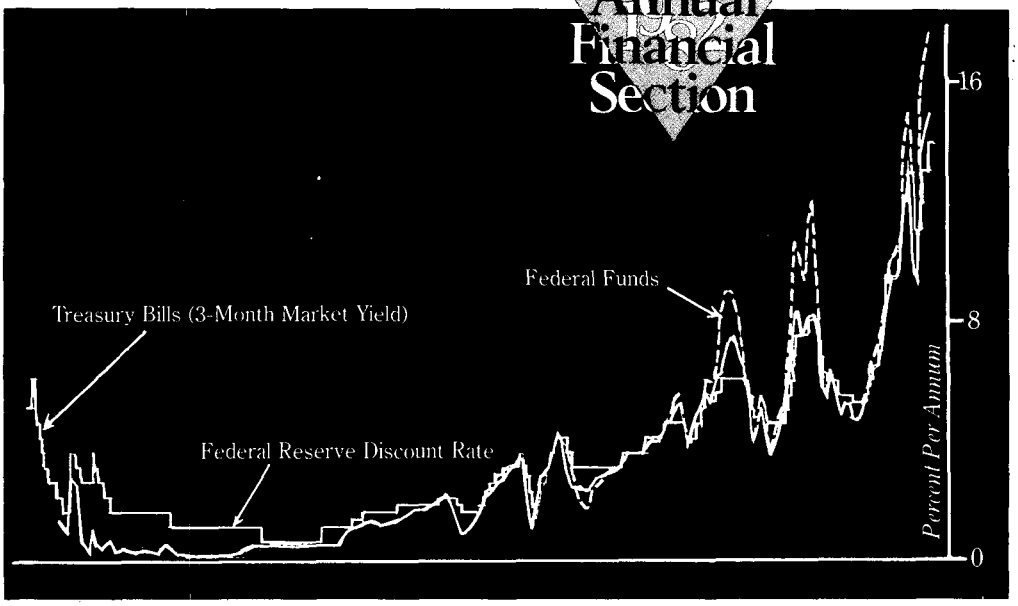


CHART 2: THREE SHORT-TERM INTEREST RATES

Federal Funds
90-Day Treasury Bills
Discount Rate

rates plotted since 1929: federal funds, 90-day Treasury bills, and the Federal Reserve's discount rate. The interest-rate cycle and the inflation velocity cycle have been moving together and are extremely similar, with interest rates, led by federal funds, moving up in inflationary phases and down during the recessionary portion of the cycle. As the chart shows, the beginning of interest-rate volatility, like the inflation velocity, coincides with the key time period of 1967, when debt expansion began in earnest. As each interest-rate cycle moves higher than the previous cycle, a wide, upward-moving channel is formed. The interest-rate cycle also peaks, on average, about every five years (1966, 1970, 1974, and 1980-81).

The movements in interest rates over the past 15 years are alarming when looked at in the perspective of a 50-year time span. A comparison of rates today versus 1929 shows that recent interest-rate volatility is unprecedented, just as recent debt expansion and inflation are unprecedented. The fact that all three are at record high levels and move together is not a coincidence; a vicious circle has developed of high government debt and borrowing pushing interest rates up, and high interest rates pushing the debt up further, perpetuating inflation. Debt is the cause; high interest rates and inflation are the effects.

GOLD IS THE KEYSTONE of the economic cycle. The gold-price cycle moves in tandem with the interest-rate and inflation cycles, generally rising in the inflationary phases and declining in recessionary phases. And by becoming increasingly more volatile, gold prices, like inflation and interest rates, have formed a long-term uptrend and channel.

Though the three generally move together, Chart 3 shows that gold is always "leading the way." This has been true not only at major peaks and troughs but throughout the cycle. First illustrated on the chart is (A), the gold price, London P.M. fix, plotted in US dollars on a semilog, or ratio, scale. Below gold is (B), a plot of five key short-term US interest rates, also on a ratio scale. (C) shows the CPI Inflation Rate Velocity Index. In comparing these three series, the similarities in their cycles since 1967-68 is most apparent.

Arrows on the gold chart (A) identify the major cyclical peaks and troughs in the gold price. Notice that cyclical top areas are made up of two peaks; arrows identify the "first gold peak," which is the beginning of the cyclical top area. The arrows marking the first gold peak and the major gold troughs have also been drawn in on charts B and C.

In comparing gold and interest rates (A and B) it can be seen that in each cycle peaks in gold have taken place consistently about three months prior to the *beginning* of the cyclical top area in interest rates. For example, notice that in 1969-70 there was a large cyclical top area in rates; they remained high for almost a year. Nevertheless, the gold peak occurred three months prior to the beginning of this top area. The same phenomenon occurred in 1980, when gold peaked about two and a half months before the beginning of the cyclical top area in rates.

(We believe that from April 1980 to the present, a massive top area in interest rates has formed which is similar to the 1969-70 time period. This top, however, has had a large distortion that occurred in the spring and summer of 1980 when rates moved down sharply and then rebounded. This distortion, caused by the imposition of credit controls and political maneuvering, has resulted in this top area taking much longer in time in comparison to the 1969-70 top area. This aberration, however, is a good example of how the cycles are becoming increasingly more volatile.)

IN BEING A LEADER, gold's cyclical movements indicate which way the economy is headed. In general, gold leads interest rates by about two to four months and leads the velocity of inflation by about two to eight months. (The only exception to the rule occurred in December 1969, when the first major gold trough occurred almost two years before the trough in rates and inflation.)

If gold is beginning a major cyclical rise, you can expect inflation and interest rates to begin their rises within months. On the other hand, as gold begins a major cyclical decline, inflation and interest rates will follow. As of this writing, gold and inflation are moving down, but interest rates are still high. This is not a discrepancy; it is an example of gold's function as an early-warning economic indicator. We believe short-term interest rates will come down substantially; our analysis indicates that the prime rate could get as low as 10 percent by the end of 1982. Gold led the way, warning that the economy was moving into another recessionary phase. Inflation velocity followed, decreasing as inflation began slowing down. Though this cyclical top in rates has taken longer than others, interest rates must follow suit by moving down and realigning them-

selves with the economic realities of this cycle.

In general, what has happened over the past 15 years is the following: Each economic cycle begins with the inflationary phase; during this time gold, inflation, and interest rates are rising. This phase generally lasts about three years. By the time rates and inflation are at their cyclical peaks, the economy is in trouble. Inflation is the overriding worry for the majority of people; food and housing costs are rising rapidly. Everyone is concerned about "fighting inflation" and bringing it down to manageable levels. As money becomes tight, inflation moves down and we enter the recessionary phase of the cycle, which generally lasts about two years. By the time we reach the cyclical troughs in gold, inflation, and interest rates, recession and unemployment have replaced inflation as the national concern and the government feels it must do something to "get people back to work." Money is then pumped into the economy to stimulate a recovery; the economy gains strength and another inflationary phase of the cycle begins. This repeating "sequence of events" of inflation followed by recession has occurred four times since the mid-1960s. This explanation is extremely simplified but, along with the charts, is very helpful in understanding the economic cycle.

Once you are aware of gold's long-term cyclical pattern, the gold price can be used as a gauge of current and future economic conditions and trends. More important is that it will also assist in identifying "where you are" in the economic cycle; once knowing the position, you can then make your business and investment plans accordingly. Currently, the recessionary phase is in force and the trend is down; however, the primary long-term trend has been and continues to be up for gold, inflation, and interest rates.

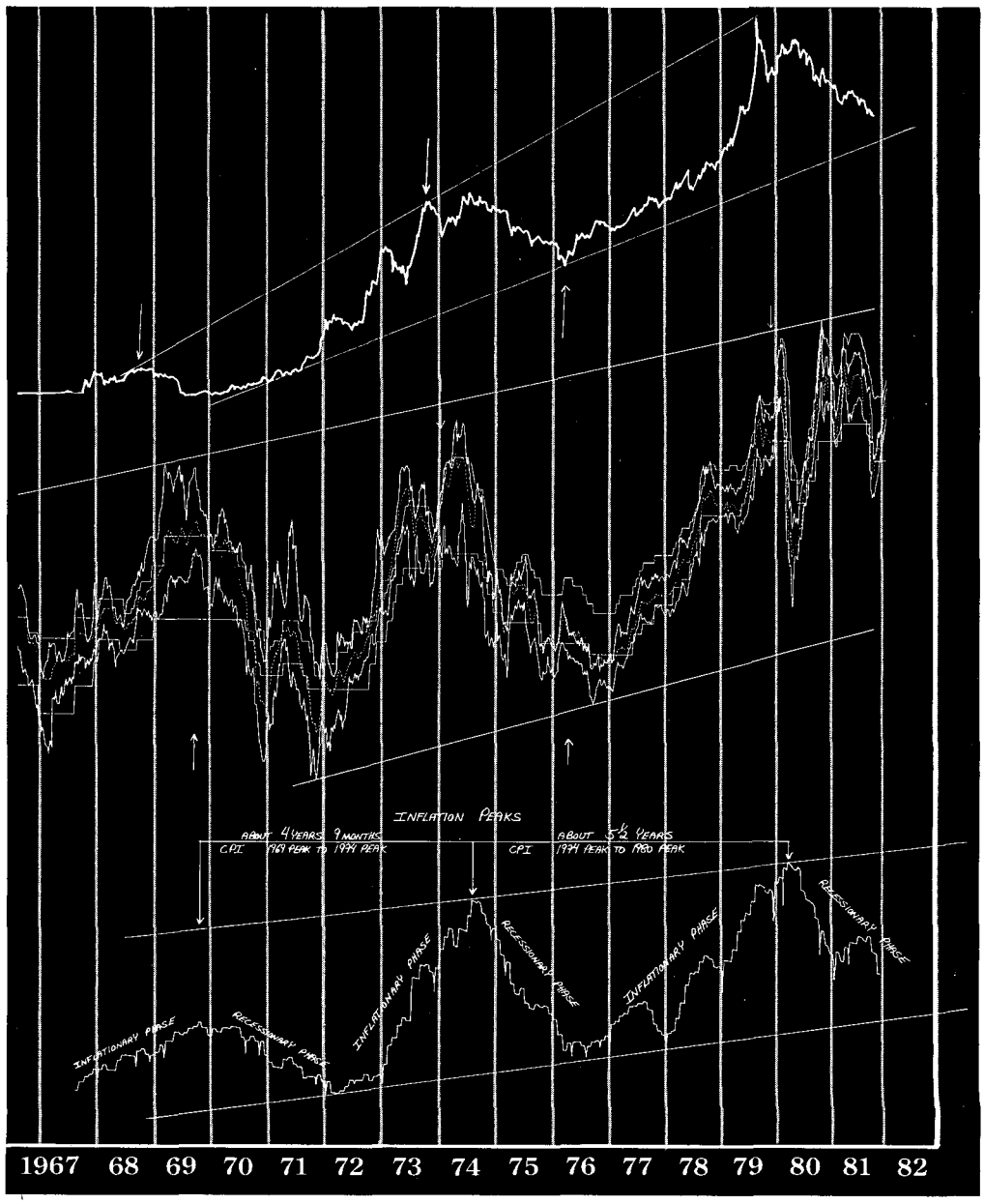
Debt fuels inflation, and inflationary expectations fuel the gold price. We believe debt will continue to expand because so many of the government expenses are "uncontrollable." Therefore, in the future we should continue to see more of the same: higher levels of inflation, higher gold prices, higher interest rates, and a continuation of the debt-caused cycles. ◻

The Adens are market researchers specializing in precious metals, interest rates, and currencies. This article is based on excerpts from the Aden Gold Study, *an extensive report on gold and its relation to the economic cycle since the mid-1960s.*

CHART 3A:
THE GOLD PRICE IN U.S. DOLLARS
London PM Fix

B KEY SHORT-TERM INTEREST RATES
Eurodollar (90-Day), Commercial paper (90-Day), Prime, Discount, and T-Bills (90-Day)

C C.P.I. INFLATION RATE VELOCITY INDEX


INFLATION PEAKS
ABOUT 4 YEARS 9 MONTHS
C.P.I. 1969 PEAK TO 1974 PEAK
ABOUT 5½ YEARS
C.P.I. 1974 PEAK TO 1980 PEAK
INFLATIONARY PHASE
RECESSIONARY PHASE
INFLATIONARY PHASE
RECESSIONARY PHASE
INFLATIONARY PHASE
RECESSIONARY PHASE
1967 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82

Adrian Day

THE WORLDLY INVESTOR

Ignoring borders increases your options

A LITTLE OVER 400 years ago, in 1580, Francis Drake returned to London from his circumnavigation of the globe in the *Golden Hind.* He brought back with him a large cargo of gold, silver, diamonds, emeralds, and spices, mostly plundered from Spanish colonies and treasure ships. His backers, including Her Majesty Queen Elizabeth I, constituted probably the most successful investment syndicate in British financial history, earning a return of 4,700 percent.

The impact of that voyage was tremendous, changing the balance of power in Europe and laying the foundation for England's global empire. It had a significant effect on the suffering English economy and boosted the fledgling capitalist system in the country. And just as important, the success of the voyage ensured that England's financial direction for most of the next four centuries would be outward, based on foreign investment.

International financial diversification is not new, and in many parts of the world it is taken for granted in planning an investment portfolio. It is perhaps a peculiarly American phenomenon that the topic is even considered suitable for debate. Author John Pugsley calls Americans' typical reluctance to look abroad a "natural consequence of their heritage." Partially, this arises from a certain provincialism among Americans (by which I mean citizens of the United States) and a belief that everything American is better—certainly bigger—than all things foreign. And until very recent times, Americans' conviction in their economic supremacy, military might, and moral right was very strong and still pervades every aspect of American life. In part, the feeling was correct.

This supremacist attitude also rolled over into the investment field. International stock market advisor Dennis Hardaker notes that until very recently the feeling among Americans was that "the investment world begins in New York and ends in California." But the mood among US investors is slowly changing. Cautious steps in the direction of international diversification have been taken, with the increasing use of Swiss or Bahamian or Cayman bank accounts, a more ready acceptance of South African gold stocks or a Mexican stock fund, and more and more frequent discussions of foreign investment in newsletters and periodicals. Often, however, this discussion emphasizes the decline in US economic superiority and the inability of the US stock and bond markets to keep up with inflation, as well as the possibilities of US exchange controls or a deep economic crisis.

However appropriate such motives may be for investing on an international scale, any US decline is by no account the sole or even prime proper motivation for such investment. Indeed, it is important to realize that, in advocating investment across national borders, one is not knocking America. Diego Veitia, president of International Assets Advisory Corporation, prefers to talk of "international diversification" and eschews the phrase "foreign investment," stating quite correctly that proper international diversification includes investment within the United States. The true international investor simply looks at the entire world as if from some imaginary spot outside it, rather than from the restricted vantage point of a citizen of a single nation.

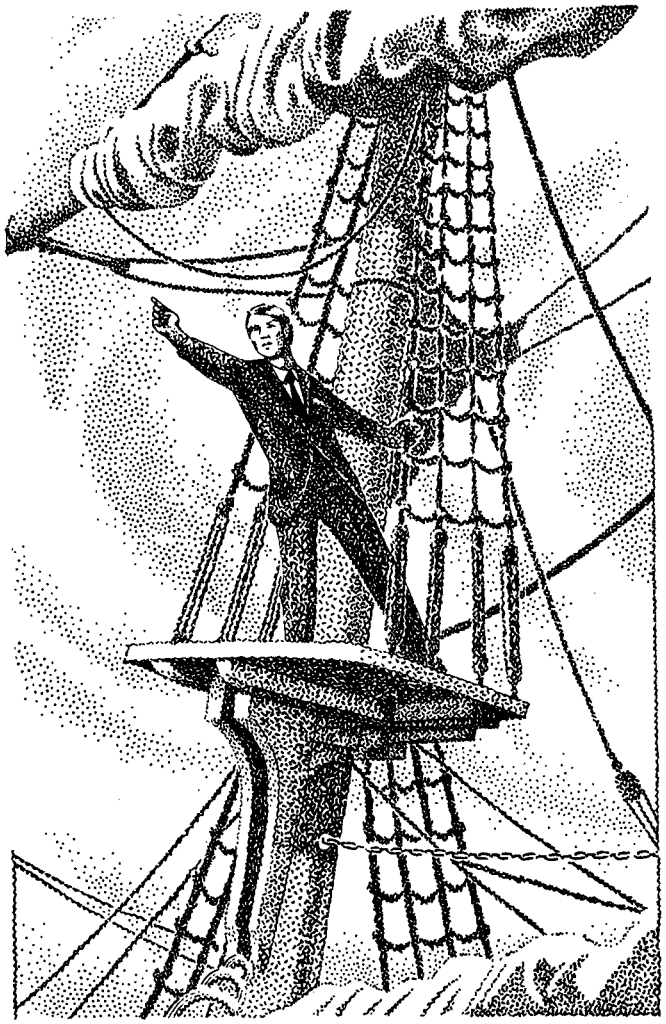
To be sure, many people invest abroad because of what they perceive as the present and potential decline of the United States. And the motive may have some validity in that it is certainly only sensible at all times to have some capital outside the country in which one is living and of which, presumably, one is also a citizen. It's a form of insurance, if you will. But for the greater part of our investment portfolio, there should be other reasons; and prime among them is the greater profit potential that is available through a properly diversified portfolio. What causes that greater potential?

Greater opportunity. You can take advantage of the ebb and flow, the ups and downs, of the world investment cycle. If you invest in the stock market, you may have to wait several years to get real profits out of the US market, unless you select your stocks very carefully. But if you allow yourself the opportunity to invest among all the stock markets of the world—more than 50—you will always have the opportunity to catch rising markets. It's simple arithmetic: if a boom-bust cycle lasts four or five years, you must wait that long to catch the next bottom in the home market; but with 50 or so markets around the world, each with similar though not coincidental cycles, there will always be a market somewhere bottoming out, providing the opportunity of greatest profits.

There will indeed be periods when the US stock market is the place to be. In 1961-62, it appreciated by more than any other market in the world. But do you really want to wait 20 years before the US market is again the world leader? The respected *International Bank Credit Analyst* has prepared a "potential international performance" chart, comparing an international portfolio with a purely domestic one. In 20 years, beginning in 1960, the US portfolio, as measured by Standard & Poor's 500, rose from 55.78 to just over 100. The international investor, simply by investing in the leading market and making only 10 shifts over the 20-year period, could have seen the same 55.78 appreciate to nearly 4,500.

The top-forming markets change, of course, but you are missing out on a lot of potential if you wait for the US market to turn around. In the last year, for example, the US market ranked 10th out of 18 major stock markets around the world, losing 9.3 percent of its value. But it was not a dismal year for all stock markets: Sweden was up 66 percent, Denmark up 45 percent, and Japan up 23 percent (all in local currency terms).

You don't have to be a short-term investor to take advantage of these rising markets, either. During the decade of the 1970s, US stocks increased in nominal value by 16.3 percent. During the same period, the Hong Kong market grew by 644 percent, Singapore stocks rose by 370 percent, and the Cana-



dian and Japanese markets each more than doubled. If you restrict your investing to the United States, you are virtually bound to do badly compared with the international investor.

Better bargains. An extension of the same notion is that by looking at the entire world, one will almost always be able to find a better bargain abroad. After all, the United States is only one of the more than 200 countries in the world. Many advisors are advocating a heavy position in the US equity markets now because "stocks are cheap." But cheap compared with what? With what they were a year or two ago? Irrelevant. With what they might be in a year or two? Well, maybe. But certainly, they cannot mean cheap compared with other stock markets.

As of March of this year, the US stock market sold at a price-earnings ratio of 7.7, moderately low by historic standards. But at the same time, other markets sold at considerably less. Dutch stocks, for example, were selling at only 5.4 times earnings, while Mexican stocks averaged only 4 times earnings. And in many smaller stock markets, the ratio is even less.

More availability. Many investments are available abroad that simply are not available domestically, because of the law or for some other reason. Gold-denominated annuities, for example, are not available in the United States or in many other countries, including Switzerland, because of legal restrictions. They are, however, readily obtainable from reputable Swiss and British companies based in Bermuda and the Bahamas, among other places, and the US resident is freely permitted to purchase them.

We have been hearing a lot lately about the enormous potential of strategic metals—exotic metals like indium, tantalum, and rhodium. These metals are traded only in London, mostly on the London Metal Exchange. And if you want to invest in them with confidence that you are dealing with someone with years of metals experience, you have to deal through London.

Higher quality. A better version of a domestic item may be available abroad. It may be less expensive, more flexible, or otherwise of superior quality. British life insurance, for example, is approximately half the cost of similar US coverage, again because of the tight restrictions on US insurance-company investments. It is not necessary to be British or even to go to Britain to obtain such coverage. It can be done quite easily by mail from the United States.

Similarly, there are scores of mutual funds based overseas that are invested in a single foreign market, in many foreign markets, or even in the US market. Many of these funds are not normally available in the United States because of archaic laws to "protect" the naive investor. The law actually prohibits funds that are not registered with the Securities and Exchange Commission from promoting or soliciting in the United States. As an American citizen, you are permitted to buy into these funds if *you* make the approaches.

Though there are some fine mutual funds in the United States, there are many others based abroad with records superior to those of most US-based funds. Indeed, the *best* foreign-based funds tend to have better records than the *best* US-based funds. Why? Many reasons, one of which may be the very receptiveness toward international diversification. That foreign funds are free of high US taxes is another factor.

Offshore mutual funds have a bad reputation—a hangover from the IOS-Cornfield-Vesco scandal of the 1960s. But when we discuss offshore mutual funds, we are discussing not only US funds based abroad but also highly reputable foreign companies based in their home countries. Companies such as Barclays, Britannia, Swiss Bank Corporation, and Union Bank of Switzerland have a wide range of mutual funds with different investment objectives and philosophies. Again, among the US companies that have mutual funds offshore are some highly reputable firms, such as Dreyfus and Drexel Burnham Lambert.

New technology. There are opportunities to invest abroad in new technologies that are often unavailable in the United States. Revolutions in home computers and industrial robotry are taking place in Japan. That country is the present world leader in technological innovation in many spheres and an aggressive exporter as well. In the areas of videotape recorders and videodiscs, for example, Japanese companies hold a worldwide 90-percent market share. Such products, and many others, have only scratched the surface of the great US consumer and industrial markets. There will surely be a tremendous boom in the stock of such companies, but the only way to take advantage of it is to buy foreign stock.

Developing markets. If you missed out on buying IBM in 1954, don't worry. You have another chance. Just as there are new technologies being developed outside the United States yet to truly take hold here, so there are things we take for granted in the United States that are only now beginning to become commonplace abroad.

The market for washing machines in many Latin American

(Continued on p. 57)

INTERVIEW WITH FRANZ PICK

Dr. Franz Pick, at the age of 83, is as fearless in his fight for monetary integrity as he was on the battlefield in his youth. His life is a series of adventures that outdo a fiction writer's imagination.

His publishing career in the United States started in 1945 when he began distributing black-market rates for the exchange of currencies. Soon he was putting out a monthly entitled Pick World Currency Report. *In addition,* Pick's Currency Yearbook, *published annually since 1955, is the standard reference book of currency values, chronicling the ineptitude of the world's money managers.*

Dr. Pick's consulting clients come from all corners of the globe to his office on West Street in lower Manhattan. The seminars he conducts periodically in the United States and Europe clearly show his contempt for paper money—the admission charge has recently been expressed in Krugerrands.

Dr. Pick's office walls are papered with facsimiles of French Assignats and US Continental Dollars ("the world's first two fraudulent currencies"). The bookshelves are lined with the approximately 80 books he has published since the late 1940s. Technology consultant Christopher Witzky and New York University finance professor Rolf Wubbels interviewed Dr. Pick at both his office and his Long Island Sound estate where he spends his summer weekends enjoying sailing.

REASON: I am sure that everyone would be interested in where you were born and your early education and orientation.
PICK: I was born in Leipa, Bohemia, Austria, in the Year of the Lord 1898. I went to grade school in a little town in northern Bohemia and later on to the *gymnasium,* or what you call here high school. I was drafted at the age of 17 years and six months into the Austrian army. I flunked officer's school, but I was granted a battlefield commission a little bit later and was a first lieutenant at 19. I ended my World War I career in 1919 as the commander of a battalion of flame throwers.

After the war, I went to the University of Leipzig to study law and business administration. I believe it was in 1922 that I got my doctorate of law. Studying business administration and law gave me a complete antilaw philosophy. For postgraduate studies, I studied currency theory at the University of Hamburg. I was still not completely convinced of the criminality of government. Today, I do not believe in law, because there is not one clean government in the world anymore. It doesn't exist. Until a few years ago, I considered Switzerland to be a clean government, and I considered the upper echelon of Britain to be clean. All this has gone down the drain. The imbecile who buys a $1,000 government bond will not be repaid with the purchasing power he originally paid for it. He cannot sue the government that issues the bond.

My first doctoral dissertation was "The Legislation of State Bankruptcy." My second doctoral dissertation was "Austrian Monetary Policy and Currency Organization During the Napoleonic Wars: A Contribution to the State Theory of Money." After completing my studies at the University of Hamburg, I went to the Sorbonne for further studies in currency theory.

The whole world suffers from the inability to manage currency. This inability is contributed to through the—let's call it obedience, or whatever, of the media, of the banks, and of the industries in order not to disturb economic expansion. We live today under horrible expropriation in the United States. Since 1940, we have lost 95½ percent of the purchasing power of the dollar in unofficial constant terms, without any protest by the public.

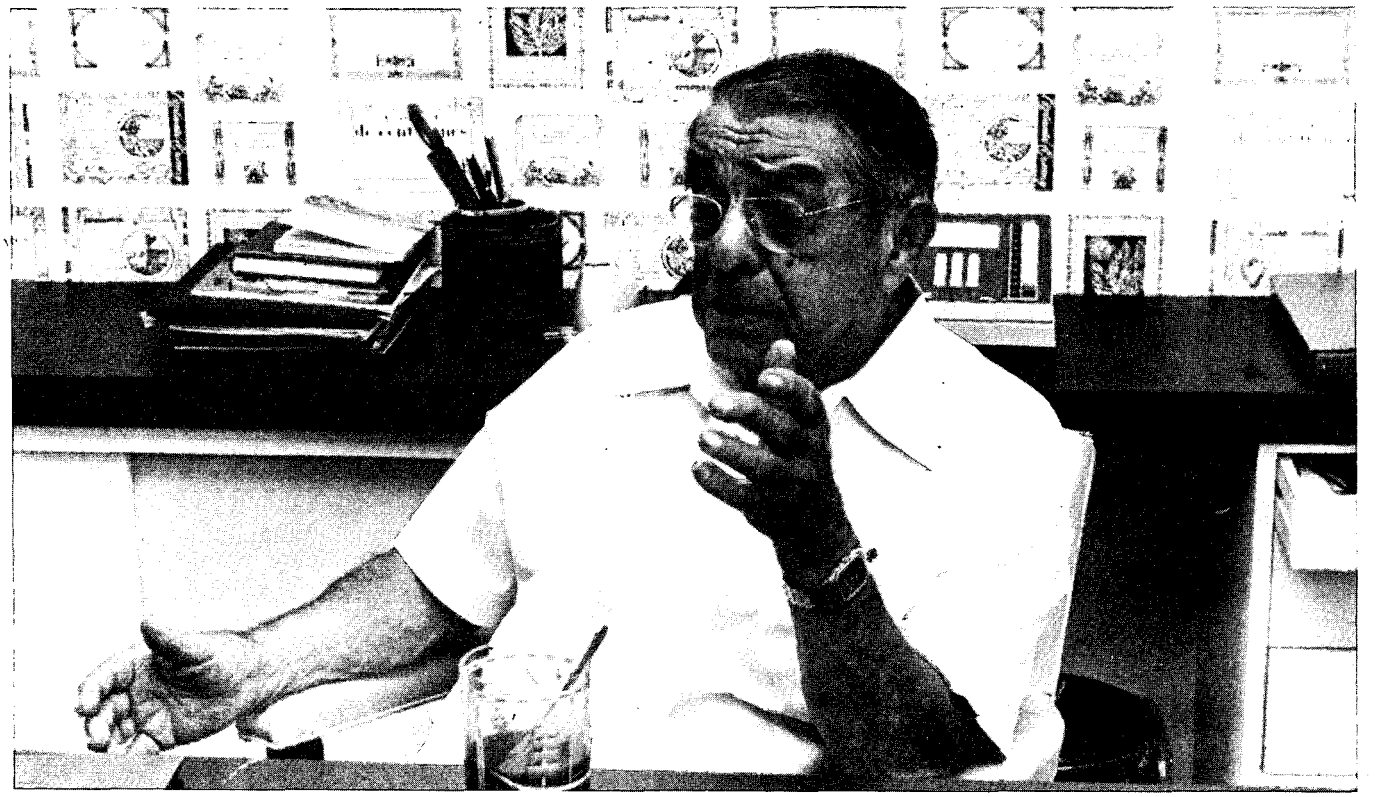
REASON: In the past, you have said that "government bonds are certificates of guaranteed confiscation." If what you say about government bonds is true, why do so many people and institutions still buy them?
PICK: They are brainwashed.
REASON: How is it that you first came to be interested in currencies and currency theory?
PICK: I lived through the German hyperinflation, but it really started when I was studying law. I had no money, I was a poor student. One day I met a woman in the Mensa Academica, where we got cheap luncheons, and she suggested that I go to the University of Hamburg where she said there was a Prof. Kurt Singer (a pupil of George Frederick Knapp), who was teaching a revolutionary currency theory.

I went. I was interested in currency because as a young second lieutenant, I was stationed in the Balkan part of Europe, and there I saw that the people hoarded gold coins—Austrian gold coins. That interested me. These Austrian gold coins increased 100 to 200 percent in paper value. And that's how I started. I wanted to get to the bottom of it and find out who made it that way. *It has not changed!*

John Law established the first paper bauble through the Mississippi Company. All that capsized in the end. [John Law, a Scotsman, having failed to convince his government, talked the French Regent into a private bank, subject to government control, with note privileges. Established in 1716, the bank issued notes redeemable in specie and was highly successful. On December 4, 1718, however, the notes were no longer redeemable, but were based on the government's general credit. This was the beginning of the end for the bank and its notes. Schemes to keep up the value by making stock subscription to various trade monopolies and to companies formed to colonize the Mississippi Valley flourished for a short period but ended in complete failure.]

And that's how I look at the events in the financial markets of the United States. Today the dollar is worth 4½ cents at prewar value, and that we do not want to admit. We have to cheat and lie as long as possible to postpone the liquidation of the present currency.

REASON: Liquidation of the present currency? That's interesting. In an interview with the *Gold & Silver Report* in early 1979 you predicted that "the U.S. government will issue a new currency—perhaps as early as 1980." It is now two years later and the dollar is still around. Do you stand by your prediction?
PICK: I stick to it. We have no possibility to continue with this currency. With the high interest rates, we have killed the automobile industry in the United States, we have damaged



the steel industry, we have damaged home building.

REASON: How would it happen—the currency exchange, that is?

PICK: On one Friday afternoon, the government would announce the closing of banks, stock markets, and the commodity markets and will invite the people to exchange the currency they have in their hands, beginning Monday morning and for another six days, for a new currency. And I believe it cannot be less than 100 to one.

I was in Brazil a number of years ago, and on the second day of my presence, I woke up and 1,000 old cruzeiros were one new cruzeiro. The fact is that the destiny of every currency is devaluation and expropriation. Why not read the second edition of my book, *The US Dollar, 1940-1980: An Advance Obituary,* which I sell for $50.00 per copy? It explains everything.

REASON: I take it that you do not think too much of supply-side economics and President Reagan's program.

PICK: Supply-side economics is an excuse for debasing the currency.

REASON: You don't think that the Reagan administration understands inflation and currency problems?

PICK: I am glad that you asked that question. In the Treasury Department, there is not one person who has studied currency theory. All of them are amateurs, bloody amateurs. They will not admit that the dollar is worth only 4½ pennies.

REASON: There have been some hints that the Reagan administration will restore the gold standard. Is it likely?

PICK: Never.

REASON: If it did, would that solve our currency problems?

PICK: I am for gold, not for a gold standard, because I believe that governments will never be clean again. Governments will be criminally and disgustingly corrupt. Therefore, a gold standard cannot function in our civilization. And especially with a subterranean economy, we cannot have a gold standard. We could not have $300 billion in hard-narcotics business without the tacit cooperation of civil servants. But this naturally is not welcome in any public discussion.

REASON: Do you think that there will be a chance to turn things around and stop inflation?

PICK: No. No government in history has ever managed inflation but by state bankruptcy.

REASON: Are we then at the threshold of hyperinflation?

PICK: I don't see that yet. But, I will tell you, a friend came to visit me and saw part of my stamp collection. She simply could not digest that there was once a postage stamp of 5 billion marks.

REASON: When do you see things getting completely out of hand?

PICK: I do not see it for the time being. We will not, however, go back to gold. The underworld is too powerful. We are not intelligent enough to go back to the gold standard.

REASON: Dr. Pick, I believe you once had an interesting experience using gold as a bribe during World War II.

PICK: Yes. It was approximately early November 1939. I was called to go to Le Havre to British Headquarters. [Dr. Pick lived in Paris for many years working as an economic consultant and free-lance journalist.] I took the train. It was five o'clock in the morning, and I was in Le Havre by seven or eight. A car from British Headquarters was at the station and took me to their headquarters. I was welcomed by a colonel, and early in the morning I made the acquaintance of "Black Velvet." Do you know what that is? It's Stout and champagne, mixed. And the colonel told me, "Sir, we believe you know something about international currency. Can we use your knowledge?" I told him, "Why not?" He said, "One of our best men was caught the day before yesterday in Bolzano [Italy]. He had no papers on him. He was in workmen's overalls. On a motorcycle, he nearly killed an old woman. They have him in jail, and they don't know who he is. Can you get him out?" I did—with one 400-ounce gold bar for the director of the jail and a smaller, one-kilo bar for the concierge of the jail. I had a Danish passport at the time. The only burden was to carry the gold in a little suitcase. I would like to say that there were no

questions asked. No one asked why I came. I simply said, "I want this man." And we were escorted to the French border. And now I give you the bitter pill. About two miles outside Frejus, on French soil, the man asked the convoy of two cars to stop. He said, "Thank you, sir," and got out.

REASON: You were also once paymaster. . .?

PICK: Of the European underground, prior to the breakdown of France.

REASON: How did you get that job?

PICK: I didn't ask for it. I had a lot of interesting assignments. At the beginning of the war, I was in currency intelligence. And I was able to find out about a half-dozen German payment centers in neutral Europe; they directed their entire intelligence actions from them. I blew them up. For that, I was sentenced to death over the German radio. What amazed me most was that in my death sentence they gave my academic titles.

REASON: If we may, let's get back to inflation. It's true that inflation is continuing, but isn't the dollar still the best currency relative to the alternatives?

PICK: *No sir!* No currency is good. Maybe some of the isolated Moslem currencies are good, I don't know. But the whole thing is a *swindle*! How can you talk about the dollar whose crown is the Dow Jones Industrial Index? The Dow Jones Industrial Average is a cheat. When it's around 1,000, the fact is that it is 47 in unofficial constant units. Why aren't we entitled to say it? But the big mergers are all based on constant dollars. This dance of billions of dollars is all based on unofficial constant dollars now worth 4½ pennies each.

REASON: What do you think of the Federal Reserve's efforts to curb money growth?

PICK: The money supply is smaller than it ever has been on a per capita basis. On a per capita basis, the money supply was $317 in 1940. It is now only $77 in unofficial constant dollars. In unofficial constant dollars the money supply has declined 58 percent since 1940, and on a per capita basis, it has declined 76 percent. These are deadly maladies. The GNP now is $2.8 trillion. It has increased in mini-dollars 2,700 percent in 40 years, but in unofficial constant dollars it has increased only 34 percent! On a per capita basis, it has declined 18 percent.

Journalists are grave diggers of the republic. They do not want to admit the truth. They masturbate with untrue figures, with the falsifications of the federal government, and they are not ashamed of doing it.

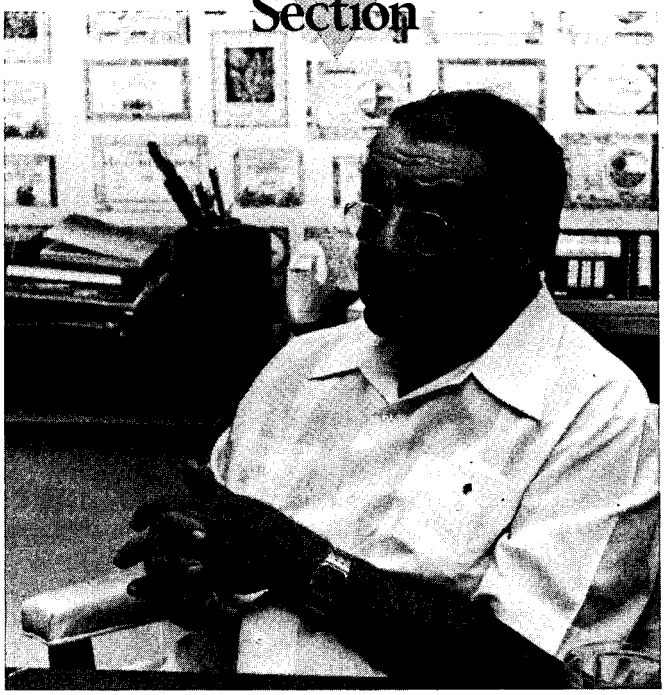
REASON: Will the Fed's actions slow inflation?

PICK: The Federal Reserve has no freedom. The Federal Reserve has to serve the needs of the government.

REASON: Amongst all of the central bankers of the world, are there any that you truly respect?

PICK: I speak only to three of them. The others are politicians, amateurs, and adventurers. I don't give a damn about the governor of the Bank of England, who is weak, or the chairman of the Board of Governors of the Federal Reserve System. I have only pity for them. They do not know the currency theory I know. If I teach currency theory, I have to start by saying that every government bond is a certificate of guaranteed confiscation. Never has a government debt been reimbursed fully to the imbecile who bought it.

And the big trick is the following one. We will expropriate all of the bond holders in this country. The biggest debts outside of the federal government belong to American Telephone & Telegraph. They will be valueless, these bonds! What will we do with the pension institutions? They are an activity without conscience. There is not one legislator who was elected with his own money. How can we tolerate that? I am very bitter, and I don't hesitate to say it.



REASON: What is your prediction for interest rates?

PICK: I am unable to give you any projection, for this is purely political. We have to expropriate the monetary assets of people.

REASON: Which country's economy do you consider to be in the best shape for the long run?

PICK: None. We do not want to admit that currency has become a hunting ground for rulers like al-Qadhafi or Reagan. Reagan seems to be a clean man. But, from a movie actor to a man who wants to master currency theory, I believe he has no chance. Currency theory is a hard discipline.

REASON: In your estimation, what is the real significance of the underground economy in this country?

PICK: I am glad you asked that question. Let me give you a breakdown. Moonlighting, $15 billion. Hard narcotics, $300 billion. Municipal and state corruption, $60 billion. Kickbacks and misrouting of defense funds, $100 billion. Loan sharking, $20 billion. Official shoplifting, $10 billion. Porno and prostitution, $75 billion. Numbers, $5 billion. Flea markets, $5 billion. Capital flight, $100 billion. Labor shakedowns, $50 billion. Total, $850 billion.

To give you one example. I have some underground contacts. The project of the Westway Highway in New York City—$2 billion, of which about 5 percent will be kickbacks and payoffs to politicians. Unfortunately, there is no proof of the underground economy.

Everything is underground economy. From the tips to my doorman to the bordellos in New York City, everything is underground economy.

REASON: What do you think will happen to all of the loans that US banks have made to Third World governments?

PICK: I am completely uninterested. I am interested in one loan complex: the Western loans to the Iron Curtain countries—Poland, the Soviet Union. That interests me. But I cannot talk to any banker, because I have to tell him that he is intelligent because he is going to gargle stupid words of patriot-

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DEPRESSION

(Continued from p. 48)

ponderous bureaucracy, strong unions—there are many similarities.

The Italian market lost 70 percent of its lira value from the peak in 1959 to the bottom 17 years later in 1977, while the lira itself lost 75 percent of its value. The Italian market thus lost 92 percent of its real value from top to bottom. Italian stocks exploded upward from 1977 to 1981.

SINCE THE 1966 PEAK of the great post-World War II bull market, the Dow Jones Average has dropped almost 80 percent of its value in real terms, although in dollars it's only declined 20 percent. Now, in 1982, stocks have lost almost as much in real terms as they did from 1929 to 1933. It's approaching the time to buy.

Successful speculators don't take "even odds" bets. If you want to win at this game, you don't move until the odds are loaded at least 60:40 in your favor, with a payoff of 2: or 3: or 10:1 for what you're willing to risk.

The way you make money in a market is by buying when things are cheap—and that means when they've lost the majority of their value and have established a "bad track record." When the bottom of this bear market comes, as it will, you'll want to buy blue chip companies, like those in the Dow Jones Index, which have lost 80 percent or more of their value from their real highs of 1966. After a crash, or during a depression, people are afraid to buy stocks at all; when they do, it's usually only the largest, best-capitalized companies that can attract them.

Especially today, when the government panics and tries to "do something," it will favor the biggest companies with its spending, both because it can deal more easily with them and because it's most afraid of the consequences of their not surviving. They'll be the first to get the money created to restimulate the economy, and they'll be able to spend it early, before the resulting tidal wave of price inflation hits. The resulting price boosts will reawaken investor interest in the market and, combined with the factors I mentioned earlier, should send the stock market sky high despite the fact the economy is collapsing.

The blue chips will treat their owners well—for the first time in two decades—during the Greater Depression. But there will be other groups that should be much, much better: the utility stocks, the gambling stocks, and the penny mining stocks, that will have 100:1 upside potential as both gold and common stocks explode upwards. In the upside-down world of the 1980s, the most-conservative blue chips will become crazy speculations, and the craziest speculations will become the most-conservative blue chips.

Markets of all types will move up and down titanically in the 1980s, as the grand super cycle that began at the bottom of the last depression reaches a grand climax during the Greater Depression. Markets will resemble nothing so much as the bar room scene in Star Wars.

Although the financial system will collapse, all the real wealth in the world will remain; it will just change ownership.

I sincerely hope that ownership will devolve to free-market devotees who not only understand theoretical economics but can apply that knowledge practically as speculators. Good luck, and good hunting. ◻

Douglas R. Casey is the author of the bestseller Crisis Investing *and the recently released* Strategic Investing *(Simon & Schuster). He publishes an advisory newsletter,* Investing in Crisis, *and provides financial counseling and fund management services.*

WORLDLY INVESTOR

(Continued from p. 53)

countries is an example. Within the next few years, such consumer products will probably become just as common as they are in the United States, but you can take advantage of the coming booms by investing in the companies that manufacture, import, or distribute these items in those regions.

Tax advantages. Although the US taxpayer is supposed to pay US taxes on all foreign investment income in just the same manner as taxes are paid on US income—with only few exceptions—many investors are under the mistaken impression that they do not have to pay US taxes on foreign income until they repatriate it to the United States. It *is* the case that, as with many other types of income (real estate gains, gold sales, etc.), it is up to the taxpayers themselves to report income from funds invested abroad. All manner of interest and dividend income is routinely reported to the Treasury, but *not* if the bank certificate of deposit is with a Swiss bank or if the company whose stock you own is a Japanese one!

I HAVE MENTIONED DIVERSIFICATION as an important reason for internationalizing one's investment portfolio, but it needs emphasizing that diversification must not just be for its own sake. One should never have all one's eggs in one basket, but it is also important that one does not overdiversify and risk losing profits. The approach should be to make carefully selected individual investments, but from the widest possible base. And that, of course, means looking at the entire world, not just the United States.

One aspect of international investing that frightens some people is that, on its face, it is more complicated than investing purely in one's domestic economy. The reason? The currency factor. Currencies are the key to international investing and can turn a poor investment into a profitable one and an otherwise sound investment into a poor one. Again, this is both a short- and long-term phenomenon. During the 1970s, for example, the Swiss stock market *lost* 12 percent in Swiss-franc terms. But in US-dollar terms, it appreciated by 86 percent. Similarly, the German market lost 10 percent of its nominal value, but a US-dollar investor would have seen a 37-percent appreciation. In the same manner, an investment in Argentinian real estate, appreciating at more than 50 percent a year, may not be such a sound investment, since the peso has been declining by more than that.

So currencies add yet another level to investment decision-making for the international investor, one which the purely domestic investor does not contend with. But he is only fooling himself. By blinding himself to the currency factor and investing only in the domestic economy and currency, the parochial investor, just as surely as if he were investing in that currency from abroad, is losing purchasing power if his own currency is declining.

So there is no advantage—not even one of simplicity—in avoiding international diversification. On the contrary, by opening one's eyes to the whole world, one sees more—and better—opportunities. I am certainly not suggesting that every investment abroad is better than its US counterpart, but, simply, that an international investor, who includes the United States as well as other countries among the base from which to select investments, will usually be more successful. ◻

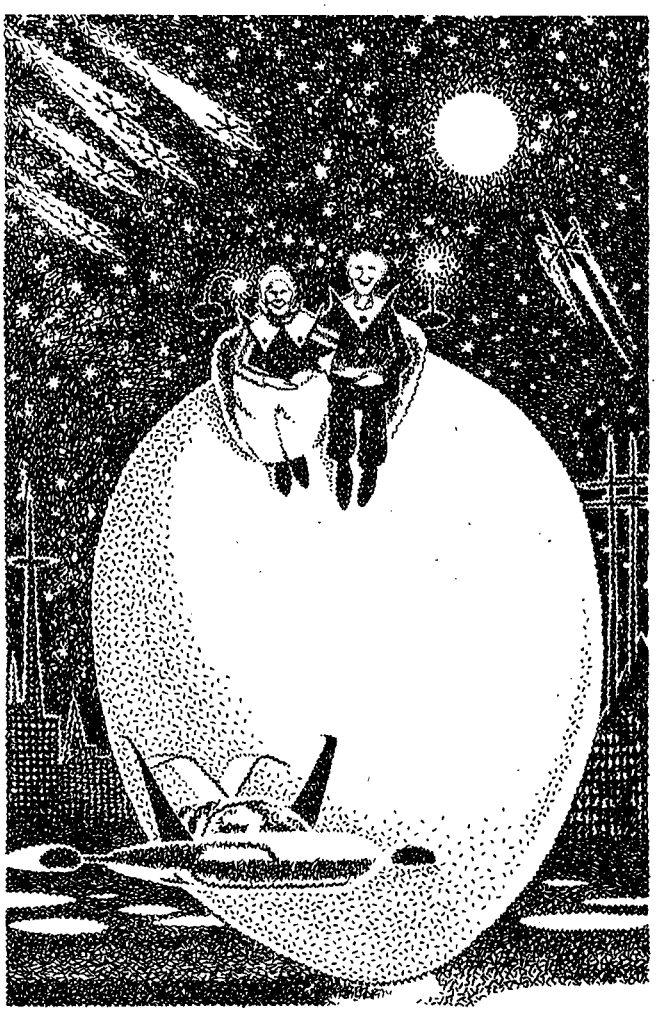
Adrian Day, a British citizen living in Washington, D.C., is executive editor of Personal Finance *newsletter and editor of two investment newsletters on the Caribbean region. This article is adapted from his book* Investing without Borders.

REASON's Annual Financial Section

Mark Skousen

HOW DO YOU SPELL RELIEF? I-R-A

At last: a solution to Social Security on the horizon



TEN YEARS FROM NOW, the introduction of the individual retirement account (IRA) as a universal saving tool will be hailed as the most significant achievement of the Reagan "revolution." Until the Economic Recovery Tax Act of 1981, millions of Americans were ineligible to set up their own retirement programs, outside of company plans. Now they are not only eligible but are enthusiastically encouraged—by both the government and the financial business community—to participate. Indications are that IRAs are becoming extremely popular. And no wonder—the IRA provides several dramatic benefits.

First, an IRA can reduce current taxable income by $2,000, or $4,000 for a working couple. This is one of the few tax breaks available for people earning less than $20,000 a year. And it is available to everyone who works for a living. Even Social Security recipients can earn $2,000 and shelter it in an IRA *without* losing Social Security benefits. The $2,000 deduction is available even to people who already have a corporate or government pension plan or a self-directed Keogh.

A second advantage of the IRA is that it encourages savings. This year alone it is estimated that new IRAs will put $30 billion into savings, money that probably would not have been saved otherwise or would have gone to the government; and the amount will increase substantially in 1983. As a result of the universal IRA, the savings rate in the United States is expected to climb from a paltry 5 percent to over 6 percent this year, an increase of nearly 25 percent. Higher rates are expected in the future, as Americans return to the habit of saving.

For years the US government's policy has discouraged saving and investing by taxing interest, dividends, and capital gains at high rates, while offering tax deductions for interest expenditures on consumer items. Moreover, the tax rate for consumption purchases (sales tax, for example) is extremely low compared to the tax on investment income. The United States is gradually reversing this policy—especially through reductions in long-term capital-gains rates and, more recently, through the introduction of tax-deferred IRAs.

This higher savings rate is essential to future economic growth, as the Japanese, German, and other high-growth economies have demonstrated. The Keynesian prescription for economic prosperity—that is, the push toward higher consumption levels—has not worked.

Austrian economic theory, as articulated by Ludwig von Mises, Friedrich A. Hayek, and Murray N. Rothbard, has shown that a *high rate of savings*, not consumption, is the key to economic prosperity. In fact, Austrian theory supports the view that increasing the savings *rate* increases production, eventually resulting in a *higher* total consumption level. The Keynesian theory of reducing savings rates and increasing consumption rates has just the opposite result—slower economic growth and less consumption in the future.

A third—and perhaps the most significant—benefit is that the IRA provides a retirement program superior to the Social Security system. In fact, the universal IRA promises to be a natural replacement for the bankrupt Social Security program. Under the current set-up, Social Security alone will push America into hyperinflation unless it is replaced soon with a sound pension system.

ORIGINALLY ESTABLISHED to provide *supplemental* retirement income at a time when the average life span was 61 years, Social Security has become, in many cases, the *only* source of income for retirees who are living longer and retiring earlier. Adjusted to the cost of living, Social Security benefits are increasing rapidly. Medicare and Medicaid, added

to supplement "inadequate" benefits, place a mammoth burden on the already-broke system.

It is important to realize that Social Security is *not* a bona fide pension program. A true pension plan takes the money invested by workers and keeps it in a trust fund that makes long-term investments. Through wise management, compounding of interest, and tax deferral, a worker's original savings multiply until, by retirement, he has amassed enough money to live comfortably the rest of his life.

Social Security benefits are paid in just the opposite manner. Money is paid to current beneficiaries the minute it is received. There is no long-term investing of funds. Moreover, benefits are essentially unrelated to how much you put into the program. A person who has paid into the system a minimum 10 years (40 quarters) qualifies for the same monthly payments as someone who has paid into the program all his working life. And with proponents now talking of borrowing from general funds to pay for Social Security, it is no wonder that younger workers are concluding in increasing numbers that by retirement age there will be nothing left for them except a mountain of debt.

Social Security, like other federal welfare schemes, began with an extremely low budget. In 1937, workers and employers paid a mere 1 percent each on a maximum of $1,000 of income. Since then it has grown into a monster. In 1982, both employer and employee will pay 6.7 percent on all income up to $32,400. This means that the average worker will pay over $1,000 in Social Security, or FICA (Federal Insurance Contributions Act), taxes this year. Considering that the employer must contribute an equal amount, the actual "contribution" comes to over $2,000. Self-employed individuals pay a current rate of 9.35 percent on $32,400, or a maximum tax of over $3,000 this year!

The maximum amount of income that is taxed for Social Security—now $32,400—is tied to the cost of living, so that as wages increase, FICA liabilities increase. If current figures aren't staggering enough, consider the fact that just 10 years from now it is estimated that a worker earning $60,000 a year will pay 15 percent of his income to Social Security, amounting to $9,000!

HOW CAN THIS MADNESS be stopped? So far, all efforts to reduce benefits have been stalemated by a Congress overly sensitive to the retirement community. Retirees represent the largest voting bloc in the country, and as long as benefits are linked to the cost of living, this influential group of constituents will bring little pressure on Congress to lower the inflation rate.

Meanwhile, there are increasing efforts to boost the revenues used to pay for Social Security. Some advocates call for making the program mandatory for *all* workers—including federal employees, who currently enjoy the benefits of a separate, well-run pension plan, and the employees of state and local governments and nonprofit groups that in many cases have taken advantage of their option not to participate in the system. Others advocate imposing a tax on earnings above the current maximum income base of $32,400, a soak-the-rich scheme that would require employers and employees to pay a percentage of *total* income. This would increase tax liabilities without increasing benefits.

Several years ago a presidential candidate suggested that Social Security be made voluntary for workers under 40 years of age. This seems like a good start. The old system could be phased out gradually, without harming those who are already approaching retirement, and replaced by far-superior private pension programs that have already proven their success.

Any alternative pension plan, however, should not be made mandatory. That's one of the chief stumbling blocks with Social Security—people are being forced to enter a long-term savings program that ignores their current needs. True, those who don't plan ahead might find themselves unable to retire when they want to, but the freedom to fail is just as important as the freedom to succeed. It is when people are allowed the widest possible choices about how to spend and save their money that they can make decisions appropriate to their individual circumstances.

While mandatory pension plans are objectionable, tax-incentive programs such as Keoghs or IRAs have much to recommend them. Contributions to these funds are tax-deductible, and earnings within the pension program are tax-free until they are withdrawn, providing a strong motivation to save. There is also a penalty for withdrawing money before retirement, which encourages long-term savings. Significantly, you are not required by law to participate.

The principle of tax-favored private pension plans is now well established and is already providing a supplement to Social Security. Efforts should be made to allow these pension plans to replace Social Security before it reaches total bankruptcy. This is the only *real* solution to the massive welfare dilemma we're facing in this country.

SO MUCH FOR THE THEORY. How about practical advice on how to maximize your profits in an IRA? Let me offer the following recommendations.

1. Set up a payroll-deduction program where you work or an automatic-withdrawal plan with your bank. This is an extremely convenient and painless way to save and will keep you from slipping off the wagon before saving has become a personal habit. It's tough to come up with $2,000 at tax time, but a monthly withholding program will make it a lot easier. Many IRA trustees can arrange this kind of withholding program.

2. Decide what your retirement goal is. You can use your IRA for earning a safe, conservative return, or you can be a speculator who trades the market. Many people feel uncomfortable trading or speculating in an IRA, so for them, it might be best to stay with money market funds or perhaps gold mutual funds as a long-term inflation hedge. But remember, if you put long-term inflation hedges in your IRA, you lose the tax advantages of long-term capital-gains rates (which are 60-percent tax-free), because IRA withdrawals are taxed at ordinary income rates. It makes the most sense, then, to use your IRA for dividend or interest income or for short-term trading. Whatever your goal is, be your own money manager and use a *self-directed* IRA.

3. Use a mutual-fund family for maximum flexibility and lowest cost. No-load mutual funds charge no commissions, so 100 percent of your money goes to work. Most offer a toll-free number, which allows you to switch from one fund to another at no charge. Flexibility is the key to investing in this uncertain economic climate. You want a family fund that offers trading in stocks, bonds, money markets, and gold shares. A full list of funds can be obtained for $1 from the No-load Mutual Fund Association, Valley Forge, PA 19481.

IRAs are the wave of the future. It is very likely they will be expanded in the future, and all of us can hope for the day they will replace Social Security. Start early, and you'll have a real nest egg for your retirement. Tax-free compounding can have dramatic results.

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FRANZ PICK

(Continued from p. 56)

ism. Patriotism and currency theory are opposite sciences. There is no possibility of being a patriot if you are being expropriated.

REASON: If those countries were to default on their loans, what would be the effect on the US economy?

PICK: The loans to Poland will never be repaid. They will be rolled over in order to fool the public. If you read the report of the Polish Congress, what do you get out of it? That they are mostly corrupt. They have villas in Gdansk and everywhere, the so-called members of the Politburos. And they have yachts and race horses. There is no communistic ideal. These are power problems.

REASON: Do you think that the present South African society and the government will survive to the end of this century?

PICK: Yes. With cruelty.

REASON: What do you see for France with the election of Mitterrand?

PICK: Devaluation.

REASON: What about the European Monetary System? Will it stick together?

PICK: No. Look, I remember the first socialist government under Leon Blum. His enemy was Paul Reynaud. Paul Reynaud was my mentor in France. One morning he said, "Pick, this afternoon you come to the Chamber of Deputies. I am going to attack the government." He attacked the minister of finance and the prime minister with, among others, the following sentence—and I never will forget this sentence—"Et aux porteurs de rentes, vous n'avez laisse que les yeux pour pleurer." (To the owners of government bonds, you have left nothing but the eyes to cry.) And they had to shut up and couldn't say one word any more.

REASON: Do you believe in democracy?

PICK: No, I do not believe in democracy, because democracy without corruption cannot flourish. Today, the most corrupt country in the world is Israel. The United States is number two. The Soviet Union, number three.

REASON: Dr. Pick, thank you very much.

PICK: You are quite welcome. ◻

SUPPLY-SIDE

(Continued from p. 45)

Along with the accumulation of physical capital, there is an expansion of *metaphysical* capital, and it's the fusion of these two forms of capital that is the dynamic synthesis of economic growth.

High tax rates stultify wealth, because their effect is to divorce knowledge from power, to divert physical capital in unproductive directions, and thus to bring to a halt the dynamic processes on which capitalism subsists. From this point of view, I think we can learn a lot from the experience of Japan, because the most important event since World War II is the triumph of capitalism in Asia.

When I was at Harvard, everybody told me that the future of Asia lay in Maoism. As a matter of fact, they said, the great experiment in Communist China would exert this magnetism on all countries on the periphery of the Mainland. The overseas Chinese in Hong Kong, Taiwan, and Singapore would look to Maoist China for inspiration for the future of their economies. Even Japan, they declared, would increasingly succumb to the allure of communist ideas.

The most important phenomenon of the recent era is that all the magnetism comes from the other direction. Rather than the massive land mass of China exerting magnetism on the little barren regions of Hong Kong, Taiwan, and Singapore, the metaphysical capital accumulated through capitalism in these areas is exerting a magnetism on Communist China. The Communist leaders now confess the failure of their system and are consulting with the overseas Chinese and the Japanese to learn how to import capitalist techniques onto the Mainland. This is a crucial fact to understand: capitalism triumphed in those very countries that had the least natural resources, the least promise on the surface for dynamic growth.

Reading the media these days, however, you might suppose that Japan is some sort of socialist country. This is one of the most absurd ideas that I've encountered anywhere. Japan's success is largely attributable to having twice as many small businesses per capita as the United States and much more dynamic competition than the United States. In turn, these developments are largely attributable to Japan's having the lowest marginal tax rates on personal income of any country in the industrialized world. The Japanese have a very high top tax rate of 70 percent, which was imposed by General MacArthur and the American advisors after World War II. But that rate only applies to incomes over $396,000. Essentially, the Japanese have the lowest tax rates of any major industrial country.

It's often said that MITI—the Ministry of Trade and Industry in Japan—which is supposedly a great force of government planning, is the key to the Japanese economy. To get an idea of the role of MITI, it's worth understanding that during the 1960s the main recommendation of Japan's planners was that the Japanese get out of the auto industry. They proposed that Nissan Motors and Toyota combine into one company and that capital slowly be diverted from automobiles into other parts of the economy. Above all, they said that companies in other industries—motorcycle companies like Honda and Suzuki, and machine tool companies like Toyo Kogo, which made the Mazda—had no role in the Japanese auto industry and should not be permitted to enter it.

The Japanese economy, however, was an open capitalist system, and as a result the Japanese auto companies told MITI to jump in the Asian Ocean, and they proceeded to create such a dynamic auto industry so intensely competitive in Japan's domestic market that it has overflowed to conquer the world. This is a triumph of capitalism and entrepreneurship—the triumph of the spirit of enterprise over the limits of physical capital—and it is on this type of success that the future of the American economy most depends.

During this period the Japanese invested less in real estate, less in energy, less in physical commodities, than virtually any other major country. What they essentially invested in was new ideas. In the United States, as entrepreneurs are unleashed, we can expect that the highest possibilities will derive from the emancipation of metaphysical capital, the capital of ideas rather than the capital of physical resources.

This is an age when the sand from which the silicon chip is manufactured will be a more important natural resource than iron or gold. This is an age when mind will triumph over matter, and the place to go with your investments is to the frontiers of American technology, the frontiers of mind and spirit, rather than the commodities and condominia and collectibles, which have dominated our horizons in the last decade. ◻

George Gilder, author of Wealth and Poverty, *is program director of the Manhattan Institute and chairman of the Economic Round Table at the Lehrman Institute. This article is adapted from a speech presented at the 1981 conference of the National Committee for Monetary Reform in New Orleans.*

VIEWPOINT

Yankee Stay Home!

BY MURRAY N. ROTHBARD

It's beginning to look like Vietnam all over again. There is the same massive American aid, escalating step by step from economic to military to armed "advisors," to prop up a widely detested military junta. There is the same reach for covert paramilitary action to try to topple the Bad Guys. And above all, there is the same frantic and absurd search for the "outside agitators" upon whom all the war and bloodshed can be blamed. For it is part of the essential mythology of imperialism that the natives inside the trouble spot are happy and content with their lot and that all trouble originates from a handful of outside agitators funneling arms, stirring up discord, and assassinating the "legitimate" rulers of the nation.

It has been said that tragedy repeated emerges as farce, and there are certainly farcical elements in the repeated series of lies and exploded hoaxes by which the US government tries to convince us that the *real* problem of El Salvador is not the happy natives but dangerous outside forces coming from Nicaragua; beyond that, from Cuba; and beyond even that, from the Kremlin. One problem is that every time it comes up with "evidence" of this massive inflow, it turns out to be farce.

But apart from the farce, a crucial point is that whatever aid has come from Nicaragua or beyond has been minuscule compared to the massive inflow of arms, material, and advisors from the United States. Why, then, is the El Salvador junta doing so badly? Certainly not because it is not "hard-nosed" or anti-Communist enough. On the contrary, the American taxpayer is supporting a thuggish band of torturers who are privileged to call themselves the government of El Salvador. It is massive repression over many years that has finally solidified the great bulk of Salvadorans behind the guerrillas.

So why does the United States unerringly take the side of dictators and torturers who are ultimately bound to lose because they are cordially hated by the great majority of their subjects? For one thing, the US government does not seem to understand that the key to El Salvador, to the rest of Latin America, and indeed to Vietnam is the land question. In all these countries, the peasantry is suffering under a "feudal" land system; that is, their ancestors—and recent ones, at that—found their land stolen from them by the government and handed to the ancestors of the present landlords. The mass of the peasantry who form the enthusiastic constituency for the Marxist-Leninist guerrilla forces

are not themselves Marxists; they want their own land back.

The great tragedy is that Americans, heedless of the land question, invariably side with their oppressors and exploiters, and all in the name of "preserving private property." So the peasantry of the Third World, fiercely devoted to private property but deprived of any support except that of Marxists-Leninists, are buffaloed into following their lead.

There are, of course, a few differences from Vietnam. For one thing, Vietnam is now behind us, an object lesson warning America against another tragic and blood-stained involvement in imperial war. To counter that, hawks from General Westmoreland to Norman Podhoretz, are trying to fashion their own "stab-in-the-back myth," blaming our loss in Vietnam on a weakening of the American will to kill created by the antiwar movement. Another difference is that many American nuns have been murdered by the junta and its paramilitary forces, so that the American Catholic Church is a powerful force against further US involvement to prop up this regime of torturers.

The State Department has maintained that the critical difference is this: that Vietnam is in Asia and El Salvador is in Latin America. But that is no difference at all; the Third World, the land question, remain the same. And, as in Vietnam, there is no moderate "third force," no substantial group of democrats whom the US government can trot out and foist upon the trouble zone and on the world as representative of the public will.

The instinct of the Reagan administration is to escalate, to expand the war. But even the Pentagon counsels strongly against Crazy Al ("I am in control") Haig's desire to send in troops to crush the opposition in El Salvador. There has been wild talk about blockading Nicaragua, crushing Cuba, or whatever to try to stomp, crush, kill, win, against the peasantry of Central America.

All this is lunacy. And now, in desperation—worried about moving into another Vietnam and beset by rising congressional opposition to the war policy—the Reagan administration, true to its imbecile belief that the Kremlin pulls the strings of Marxists throughout the world, turns to talks with Russia. A top administration official tells the *New York Times* that "we have to talk to the Russians," that only a global agreement with the Soviet Union will solve problems of imperialism in El Salvador and elsewhere.

US foreign policy is still stuck back in the 1940s and '50s. It's been 20 years since all Marxists-Leninists throughout the world have taken orders from Moscow. Even many Communist parties are independent of Moscow, and certainly this is true of the Marxist-Leninist guerrillas in El Salvador and elsewhere in Latin America.

No, the Soviets will not save us. The US effort is doomed in El Salvador and in the rest of Central America, and the sooner we recognize this the better. The cause of peace, the cause of abstinence from mass murder, the cause of sanity, require that the US government get the blazes out of El Salvador, and immediately.

Murray Rothbard is a professor of economics at Brooklyn Polytechnic Institute of New York and the author of numerous articles and books on economics, history, and the libertarian movement.

Illustration by Susan Sallade

Preservatives: Fresh Facts

BY DURK PEARSON AND SANDY SHAW

"Preservatives may be preserving you. . . I think that's something you missed."

—from "Eat Starch, Mom," lyrics by Grace Slick

Preservatives may be preserving you, says the rock-and-roll singer. Others believe just as vehemently that food preservatives should be avoided like the plague. What are the facts?

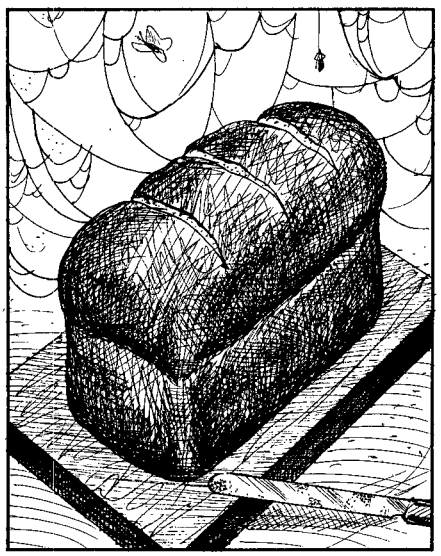
Food ages, just as living organisms do, and by similar chemical processes. One of the most important of the food-aging processes is the oxidation of fats and oils.

Fats and oils contained in foods are subject to spontaneous, self-catalyzed oxidation (autoxidation) reactions when exposed to air. Both the creation and the breakdown of the oxidized fats result in the formation of chemically reactive and highly promiscuous entities called free radicals. Free radicals are mutagens (mutation causers), carcinogens (cancer causers), and a major cause of aging, both in food and in living organisms.

In living plants and animals, special enzyme systems and antioxidants (substances that block uncontrolled oxidation reactions) control free-radical reactions. Uncontrolled free radicals can do serious harm (they are implicated as causative factors in aging, cardiovascular disease, and cancer, as well as a host of less deadly but still unpleasant conditions). Free radicals are necessary, however, in some normal metabolic reactions, such as the burning of food for energy. Without the free-radical-control enzymes (such as superoxide dismutase and glutathione peroxidase) and antioxidants (like vitamins C, E, B-1, B-5, B-6, the amino acid cysteine, the minerals zinc and selenium), all air-breathing organisms on this planet would quickly die.

Foods are tissues of dead animals or plants. The fats and oils in these tissues are still susceptible to oxidation. (Polyunsaturated fats are particularly easy to oxidize.) Since the organism is no longer actively synthesizing the control enzymes and antioxidants, the fats and oils in these foods are especially vulnerable to oxidation (becoming rancid). Manufacturers of foods such as potato chips and cooking oils used to add antioxidants such as BHT (butylated hydroxytoluene) to protect the fats from oxidative degradation. But now, in response to misinformed public clamor for removal of preservatives, most such foods contain no antioxidant additives. The sad fact is that such foods are much more dangerous to eat without added antioxidants than with them.

An experiment in which oils were fed to rabbits showed that even oil that is



only slightly oxidized, in which a rancid smell cannot yet be detected, contained enough oxidized fats to inhibit the rabbit alveolar macrophages (lung white blood cells, part of the immune system) from ingesting bacteria. If our white blood cells were as sensitive as a rabbit's (fortunately, they are not), it would take only a few teaspoons of these slightly oxidized oils to reduce the activity of these white blood cells by 50 percent! Our alveolar marcrophages are an important defense against lung cancer; healthy, active alveolar macrophages seek out, identify, kill, and eat cancer cells.

Manufacturers of foods have turned to other means of protecting foods containing fats and oils. One successful method is to package the food in an airtight container such as a tin can, bottle, or plastic bag lined with aluminum foil. Of course, once the container is opened and the food exposed to air, it should be eaten immediately—or you can add your own antioxidants.

Leftovers such as meats develop off-flavors that are a reflection of the level of oxidized (rancid) fats they contain. Whenever we want to save these foods for later eating, we coat them with one of several antioxidants. Ascorbyl palmitate, a fat-soluble form of vitamin C, is particularly good for this because it is a powerful antioxidant and excellent synergist with other antioxidants and has little or no flavor of its own. The food is placed in a self-closing plastic bag, ascorbyl palmitate powder is sprinkled generously over the food, the bag is shaken to disperse the powder, the excess air is squeezed out, the bag is zipped closed, and then the food is refrigerated. You can do a simple experiment comparing food stored in this manner to food stored without added antioxidant that will demonstrate how much longer it takes the treated food to develop a rancid odor.

Autoxidation of fats and oils takes place in the bodies of living plants and animals such as ourselves. The brain is particularly susceptible to autoxidation because it contains a higher content of polyunsaturated fats than any other organ in the body. In one experiment with Sprague-Dawley rats, animals fed semisynthetic diets (which did not significantly affect the death rate) made more errors on a maze test when larger amounts of polyunsaturated fats were fed in place of saturated fats. Free-radical damage resulting from the autoxidation of the excess polyunsaturated fats is a likely explanation.

Many people have strong negative feelings about food preservatives, especially synthetic ones. BHT, which has long been accused of causing cancer, is a good example. Yet the fact is that numerous experiments in both animals and cell cultures have demonstrated that BHT *inhibits* the development of many different types of cancers. It reduced the number of chromosome breaks in cells exposed to benzoalphapyrene, a powerful carcinogen and a product of almost any type of combustion. In another study, nude mice exposed to ultraviolet light but fed antioxidants (including BHT, which was later found to provide most of the protection) developed far fewer skin tumors than control mice.

In the Soviet Union, BHT is sometimes used as part of cancer therapy. Some scientists believe that the drop in

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Time to Go for Gold?

BY STEVEN K. BECKNER

Unless you are one of those investors who had the foresight a year or more ago to get out of gold, the long slide of the precious metals has been both costly and disheartening. You may even be prepared to believe, as does most of the market, that gold is dead. But while it may have been foolish to ride gold all the way down to a 2½-year low, it would be equally foolish to sell out now. For gold is probably just hibernating, and now there is a rare opportunity to take new positions at bargain prices.

Notwithstanding recession, high interest rates, and gold sales by OPEC countries, the Soviet Union, and others, there is and will continue to be enormous resistance at the $300 level. To say that $300 per ounce is an important psychological barrier admittedly sounds all too familiar. The same, after all, was said about the $600, $500, and $400 marks. Glen Kirsch, manager of Deak-Perera (Washington), predicts that the $300 barrier "will be pierced," but adds, "The question is whether it will stay down there."

Much will depend on the volume of trading on futures markets. Thin volume will make it easier for short-side speculators to drive gold down. Even if the bears do succeed in overcoming the $300 obstacle, however, it seems very unlikely that sub-$300 prices could be sustained for long. Gold in the $200-$300 range should call forth tremendous buying interest.

It's no little secret that the biggest reason for the yellow metal's current doldrums is high interest rates—or, more accurately, the confluence of high interest rates and much-diminished inflation. With the consumer price index rising at a 3.6 percent annual rate and wholesale prices actually falling in time to the recessionary music, three-month Eurodollars were earning around 15 percent—an incredible, albeit hypothetical, 11.4 percent real return. One has to have a stout heart to bet against the dollar and in favor of gold at those rates, no matter how dire your long-term expectations.

But that isn't all that's been buffeting bullion. For one thing, the very fact that gold became far overpriced in January 1980 has amplified and accelerated the inevitable downward reaction. The late 1979 surge that took gold to $875 per ounce, silver to $50 per ounce, and platinum to over $1,000 per ounce sucked a lot of naively ambitious investors into the market. This included not just small investors but big timers, including countries like Libya and Indonesia. As the price decline has gained steam, selling has snowballed, bringing much of the newly acquired metal stocks back onto the market.

One of the biggest dampers on the market in the first quarter was heavy sales and rumors of sales by certain OPEC nations, chiefly Iran and Iraq, which are thought to have dumped upwards of 60 tons, but also possibly Libya and Indonesia. In addition to actual sales, many central banks have sought to use their gold stocks as collateral for balance-of-payment related loans.

Probably the worst of the hangover from the 1979-80 binge is now over. One would hope so, with gold having fallen nearly 65 percent, silver 86 percent, and platinum 67 percent since their peaks. In Washington recently, Credit Suisse chief Rainer Gut told me that the overvaluation of gold two years ago "has been digested." He called $300-$325 a bottom, though he predicted that gold would still be below $400 by year end.

Much will depend on adjustments in supply and demand, said Gut. He noted that both the Soviet Union and South Africa have been forced to sell more gold than they might like at these prices in order to finance their imports. But he speculated that by April the worst of these sales would be over. "Once we get down to a level between $300 and $350," he added, "it could well be that central banks would pick up some gold." Possibilities might include Switzerland and Japan.

Interest rates and inflation rates aside, the law of supply and demand has not been repealed. Already, at the lower price levels two things are happening. Gold and silver production are falling. A number of important South African mines have costs-per-ounce exceeding the $325 level, ranging up to $417 per ounce. Mining wage costs have risen 245 percent over the last decade, and one mine, Witwatersrand Nigel, has already closed down.

Meanwhile, both industrial and investor demand should increase. So far, due to the recession, industrial demand has not improved greatly. But silver consumption was about 7 percent higher in 1981 than in 1980, which shows that lower prices do attract increased usage. "I can't believe people won't take advantage of these prices to replenish inventories," observes Deak's Kirsch.

The most encouraging source of new demand has been Japan, where primarily small investors have suddenly discovered gold. Japan imported five times more gold in 1981 than in the previous year, and more is expected.

Naturally, demand will continue to be dampened by interest rates, which affect both inventory costs and the relative appeal of alternative investments. But there is growing evidence that interest rates are falling—particularly abroad.

A key question is whether this reflects diminished inflationary expectations or easier credit policies. Undoubtedly, people have adjusted somewhat to lower rates of inflation for now, but at the same time it is apparent that monetary restraint has loosened. That doesn't mean that hyperinflation is around the corner, but given Congress's unwillingness to cut spending, it becomes increasingly likely that the Federal Reserve will be forced—by statute if necessary, as House Banking Chairman Henry Reuss recently threatened—to accommodate fiscal policy. When this becomes clear, gold will take on its old glitter again.

Silver should be pulled along in gold's wake, particularly as the economy recovers. So should platinum. The biggest thing holding back silver will be continued uncertainty over the fate of the Hunt brothers' hoard, which purportedly must be sold under the conditions of their rescheduled loan agreement. But this worry has probably been exaggerated. The Hunts may yet be able to pay off their debts and keep their silver. And anyway, the Texas billionaires are not the only ones who recognize the beauty of silver at $7.04 per ounce.

Steven Beckner is a free-lance financial writer, the assistant editor of World Money Analyst, *and the author of* The Hard Money Book.

Ethical Shock Trooper

BY PATRICK COX

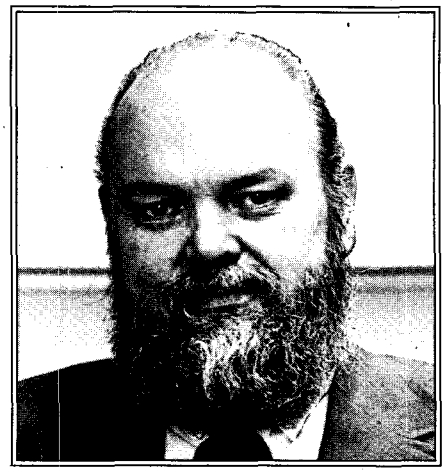
Ronald Howard sits behind his desk in the School of Engineering at Stanford University and talks about the world almost the way a happy Buddhist monk would. He smiles benignly and speaks of a free-market, individualist—in other words, a libertarian—society as an "enlightened" society, a society with compassion and heart. It's not what one expects from a man who directs teaching and research in the Decision Analysis Program of the Stanford Engineering-Economics Systems Department. Conversely, one does not expect a person who shows intense concern for the plight of dolphins and whales to be the author of highly technical books like *Dynamic Programming and Markov Processes* or *Dynamic Probablilistic Systems.* But that's Ron Howard.

He must be another academic recluse, right?—cloistered in the ivory towers of Stanford where college professors have the luxury of theorizing about the real world without taking part in it. Not so. After serving as an associate professor of electrical engineering and then industrial management at the Massachusetts Institute of Technology, where he earned his degrees in engineering and economics, Howard went on to work as a consultant to General Electric, Xerox, and SRI International. He has applied his expertise in decisionmaking to an interestingly varied set of problems, from investment planning and research strategy to hurricane seeding and nuclear-waste isolation.

In fact, Dr. Howard is credited with creating the field of "decision analysis" in 1964 and continues to dominate the field. One bit of evidence of the practicality of his work is the success of the consulting firm he founded last August. Today, with 30 employees, the Strategic Decisions Group counts many of the country's largest oil, metals, chemicals, and financial institutions as clients. "When they have a complex, significant decision," Howard explains, "we help them think the problem through."

The influence of the Strategic Decisions Group, based in Menlo Park near San Francisco, goes beyond that of improving the economic behavior of profit-maximizing firms. The question of ethics is interwoven into all of Howard's work; he approaches all decisions with individual rights firmly in mind. Besides making businesses more aware of the effects of their policies on individuals, Howard frequently has extensive conversations with the leaders of some of the world's largest corporations on the issue of individual liberty.

Ethics and the individual are the main subjects in another area of Howard's endeavors. He has introduced and taught two new courses at Stanford—"Introduction to Voluntary Social Systems" and "The Ethical Analyst." He is the founder and director of the university's Decisions and Ethics Center. In his courses and through the center, Howard deals with the individual decisionmaker and the ethical systems that are available to guide that individual, as well as the effect of policy decisions, especially in the government sector, on individuals.



RONALD HOWARD

The field of decision analysis has proven to be a very successful professional vocation. His graduates are hired immediately, most by companies founded by past graduates. But the research that Howard takes part in and directs is having other effects, as well. Government decisionmakers involved in ethically sensitive areas—medical treatment and eminent domain, for example—often have never before been confronted with analysis of their behavior. "They are usually shocked," Howard laughs. It's not an issue of different ethical systems, he says—"we have one and they don't."

In addition to an ethical system, Howard's people have an "inside position" from which to criticize "the pseudo-sciences used to justify government programs." "Ethical for us means preserving the freedom of individuals—leaving them alone, basically," says Howard. "We can confront the advocates of cost-benefit analysis in social programs, used to push people around, on their own ground, with big formulas and giant computers." He smiles and then waves his arm in a gesture of dismissal. "We can outdo them, actually." Then, leaning forward with a gleam in his eye he confides softly, "We are the shock troops of ethical analysis."

Ron Howard can, in fact, be a little shocking himself. One doesn't expect a man who has been published internationally on semi-Markovian decision processes, stochastic models of consumer behavior, and Bayesian decision models for system engineering to come up with a statement like, "You don't hear the word *love* enough in libertarian circles."

Howard is optimistic about the future of freedom because "enlightenment is not like calculus or mechanics," he says, integrating science with psychology again. "The libertarian philosophy, like geometry, can be figured out after the basic principles are understood. It is not limited by the number of teachers. It is like a seed that grows of itself."

On the negative side, Howard sees serious problems with the stance of those who espouse individual liberty. "We come through as being indifferent to suffering." He sees a dichotomy between the minds and the hearts of liberty's advocates and urges that people show that they care when advocating individualist principle in touchy areas like rent control, abortion, social security, pollution, and endangered species.

"Many people are scared of freedom," Howard says. "We need more people who value freedom over the government's promise of security....When other people see the promise of a free and compassionate life, they will demand a libertarian society. All we must do is create the vision." Ron Howard is hard at work using all the tools of science—to create a vision.

Patrick Cox is a free-lance writer.

arts & letters

MOVIES

Reviewed by John Hospers

Vice Squad

One would have thought that *Vice Squad* would be about victimless crimes. But it is so only tangentially: the main character is a prostitute, and we are treated to a series of encounters between her and her clients exhibiting some of their flakier peccadillos. Most of the film, however, isn't about this at all but about a sadist who has escaped custody and tries to track her down to torture and kill her. A certain amount of suspense is involved in his pursuit of her, which provides most of what interest there is in the film, but the crimes delineated are by no means victimless. It's just another tale of violence and revenge, not nearly as well done as in a thousand previous films.

Mariel Hemingway and Patrice Donnelly in Personal Best

Making Love, Personal Best

Two recent films deal with homosexual affairs, not exploitatively but openly and honestly. In *Making Love,* a physician (Michael Ontkean) gradually discovers in himself an attraction to a successful writer (Harry Hamlin), and the problem is how to reveal all this to his wife (Kate Jackson). The inner conflict is so prolonged that the audience becomes impatient and wants the doctor to get on with it. The characters, however, are mere outlines, symbols of types, increasing the difficulty of identifying with them. And it's all very "upper-class": all the characters are surrounded by the trappings of wealth. This film does for sexual relations what *Guess Who's Coming to Dinner* did for racial relations: unconventional actions aren't so bad if you've already achieved material success in life. But what if you haven't?

Personal Best is a much better film: the characters are more fully delineated, and the plot doesn't creak. The situation of one female athlete (Muriel Hemingway) falling in love with another is presented with sympathy and intelligence. But the film is much too long: apparently the director could not resist the temptation to include lots of footage that should have ended up on the cutting-room floor. Again and again the action is stopped cold when it should have been propelled forward.

The Border

The Border is built along the lines of a classic tragedy. It has to do with the fate of Mexican illegal immigrants and their treatment at the hands of the El Paso border patrol. Jack Nicholson turns in one of his better performances, and the film is interesting both sociologically and dramatically.

Shoot the Moon

Shoot the Moon has two excellent performances by its costars, Albert Finney and Diane Keaton, locked in a hopeless marriage with four irresistible small daughters. There is considerable psychological power in this film, and the best scenes are the quiet ones, in which a small daughter tries to discern why her father would go out with another woman, or another daughter gains some small insight into the feelings of her mother, the rejected wife in a love-triangle. But every time such a quietly effective scene occurs, its power is dissipated by some harum-scarum scene of violent overt action that doesn't ring true and spoils the effect of what has preceded.

Christopher Reeve and Michael Caine in Deathtrap

Death Trap

Concerning the plot of *Deathtrap* there is almost nothing that can be said that wouldn't give away the whole show. Based on a play by Ira Levin, it is certainly different from the usual run of Sidney Lumet's work. The film plays a chess game with the audience, and the plot is full of surprises. Michael Caine, Dyan Cannon, and Christopher Reeve are all fascinating to watch, and the whole thing is fun, sort of: the fact that it is a series of calculated gimmicks without the slightest social or psychological interest may deter some viewers and intrigue others. "Interesting but instantly forgettable" is the quickest way to sum up this film.

John Hospers is a professor of philosophy at the University of Southern California. His recent books are Understanding the Arts *and* Human Conduct *(2nd ed.).*

BOOKS

Origin of the Specie Monopoly

Government's Money Monopoly.
By Henry Mark Holzer.
New York: Books in Focus.
1981. 227 pp. $19.95.

Reviewed by Joe Cobb

Henry Mark Holzer has compiled perhaps the most important reference book on money in recent years. Most of this book is not Holzer's own description but an exhaustive exploration by legal scholars of the legal history of the US government's monetary powers. What makes this book so significant is that Holzer shows the roots of that monopoly power and argues that we will never be rid of the pestilence until a constitutional amendment is adopted to abolish the power of the government "to coin money."

Holzer is pessimistic about the possibility of abolishing that power, but his discussion of it is informative and brilliant. At a recent business luncheon in Washington, the chief economist for Chase Manhattan bank observed, "There are two powers that governments will never surrender—the power to tax and the power to coin money." This is the conventional wisdom. The revisionist point of view is that some form of competition in currencies is inevitable as the world becomes a more and more integrated economic system. Regardless of the outcome, the information that Holzer has captured between the covers of *Government's Money Monopoly* represents an invaluable contribution.

When the American republic was founded, the Constitutional Convention seemed to establish a federal system *without* the prerogatives of sovereignty that the British monarchs had claimed. Yet, the new Constitution was not as tightly drafted as many had hoped. A few important words were left out of the document—a few places should have said, "Congress shall make no law respecting..."

The Federalists were a crafty bunch. One of the first bills in the hopper of the first Congress proposed to incorporate a bank—the first Bank of the United States. Asked by President Washington to give an opinion on the bill, Alexander Hamilton wrote a lengthy treatise justifying the "necessary and proper" powers of the new sovereign government. The bank act was passed, and Washington signed the bill.

In 1819, the famous Supreme Court case of *M'Culloch* v. *Maryland* was handed down, written by Federalist John Marshall. This opinion about the constitutionality of Maryland's taxation of the

Henry Mark Holzer

Bank of the United States reaffirmed the theory of sovereignty first advanced by Hamilton in 1791. As a result, the US Constitution was transformed from a charter granting limited powers to a central government into a document empowering the central government to do almost anything that was not explicitly forbidden.

The first chapters of Holzer's book should lay to rest once and for all the traditional conservative argument that the US Constitution is a "charter of liberty." Its weakness in the defense of property rights and economic values is blatant.

Under British law the sovereign powers of the king after the 16th century included the ability to debase the currency. Queen Elizabeth introduced a base coinage into Ireland during one of the many wars there to prevent the Irish from exporting specie to France in exchange for war matériel. Since the coins bore the royal stamp, however, some of them later were used in England to discharge a debt, and the courts upheld their use. This law case became a critical part of the decision in *Knox* v. *Lee*, the 1871 legal-tender case that upheld the power of Congress to issue greenbacks during the Civil War.

Other court cases and legal maneuverings continued to strengthen the government's money monopoly. In a fascinating, obscure case that came to the Supreme Court in 1910, *Ling Su Fan* v. *United States*, a citizen of the Philippines was convicted of attempting to export silver coin in violation of local law. The case was reviewed by the US Supreme Court and the law of the land was laid down for all time that if property is in the form of money, the government can attach "limitations which public policy may require." Out the window went the Fifth and Fourteenth Amendments, along with Article I, Section 9, which was supposed to prevent Congress from making laws that would impair contracts ex post facto.

The ultimate destruction of individual liberty as regards money, of course, came with FDR and the seizure of gold—and the fixation of Federal Reserve Accounting Unit Dollars as the monopoly money of the United States. Today the word *dollar* no longer has any meaning at all. If a borrower promises to repay some saver $1,000 in five years, there is no way at all to know or predict what the real purchasing power of $1,000 may be in 1987. The investor has to gamble—and to compensate himself for this speculation, he will perhaps ask that the sum of money be returned twofold. For a sum of $1,000 to double in five years, the interest rate would be calculated at 15 percent. Moreover, if the investor anticipated *any risk at all* that the borrower might default, he would ask for even more interest as compensation! Is it any wonder that high interest rates plague our capital markets?

Ludwig von Mises demonstrated in his book *Socialism* (1922) that a centrally planned economy cannot function efficiently because it would not have a capital market and so no judgments could be made about the relative efficiency of alternative investment projects. Today, the United States is discovering another version of that fundamental truth. Our continuing stagnation is no doubt due to the disintegration of our long-term capital markets, under the burden of shorter and shorter speculative planning horizons. The fog that every investor must attempt to pierce has become thicker than pea soup because the central bank of the United States—a creature of *M'Culloch* v. *Maryland*, *Knox* v. *Lee*, *Ling Su Fan* v. *United States*, and several other cases that Holzer has carefully documented in his book—plays an active role in making life tough all over.

Holzer shows us in careful detail the

origins of the US monetary monopoly and how it was a perversion of the economic and legal principles of the Enlightenment upon which the United States was founded. The next question—the one that we must answer for ourselves, and in turn ask economists and statesmen—is, Why should the Federal Reserve System be a monopoly? Indeed, why should the government of the United States enforce any legal-tender monopoly at all?

The economic theory of money and credit that is taught in the United States—regardless of whether it is of the monetarist or Keynesian versions—derives exclusively from that of the British neoclassical school, where sovereign powers to coin money and establish central banks are considered self-evident. Is this a Fabian trick? Are the enemies of the free market getting the last laugh because nobody on our side is willing to raise the "politically unrealistic" question about abolishing government's money monopoly?

Joe Cobb studied economics at the University of Chicago and is executive director of the US Choice in Currency Commission.

Buckley and Blackford Together Again

Marco Polo, If You Can.
By William F. Buckley, Jr.
New York: Doubleday.
1982. 233 pp. $13.95.

Reviewed by David Brudnoy

Mr. William F. Buckley, Jr., everybody's favorite conservative—the conservative liberals love to have over for cocktails, the conservative who can make almost any view palatable if only by speaking of it in words no one understands—*that* Buckley writes novels. This was news a few years back when *Saving the Queen,* the first of Buckley's four novels, took lovers of fiction by surprise, most of them having suspected that a first novel by a master polemicist would surely be wooden, pedantic, turgid, and boring.

Friends of Mr. Buckley took *Saving the Queen* to heart, even those who think that conservatives are so shy about s*x that their children all come to life under cabbage patches. Oh, there was the famous scene in *Queen* when, to save the queen—a British queen but not the current one—American secret agent Blackford Oakes had to go somewhat more energetically into, shall we say, the palace innards. That scene, which scandalized some who expected that when America's best-loved conservative writes a novel it must be G-rated, was, well, a refreshing introduction to the unexpected novelistic whimsy of William F. Buckley, Jr. (By the by, if you can catch Bill Buckley alone, and you are of age and not a prude, you might ask him to tell you the story of David Niven and the publicity blurb for *Saving the Queen.* It is a story with unusual wit about it.)

Blackford Oakes is a Yalie, as Bill Buckley is a Yalie; he is of the CIA, as Bill Buckley was for a short while of the CIA; and he is awfully well bred and awesomely knowledgeable, as...but the point is clear. He is something of an alter ego to the author, the author's age when the four novels' action occurs. We are with Blackford in the 1950s, during the High Cold War, when commies were bad guys, when Ike was in power; we are in a time of more clear-cut polarities than we know now, and we—the good guys of the West—are locked in a most protracted conflict with the Soviets.

So the four Buckley novels carry us

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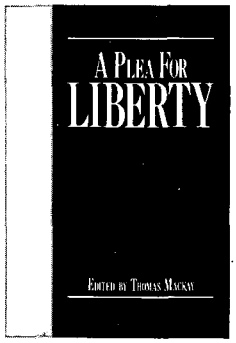

A Plea For Liberty
An Argument Against Socialism and Socialistic Legislation

Edited by Thomas Mackay
Introduction by Herbert Spencer
Foreword by Jeffrey Paul

Twelve essays, first published in 1891, by British authors investigating the impact of "social legislation" upon the people and economy of Great Britain and Australia at the turn of the century. The discussion is both theoretical and empirical. Among subjects considered are: labor unions and labor under coercion or freedom; the condition of the working class; effects of protectionism on labor, agriculture and industry in Australia; free libraries; the role of the State in education; the Post Office, State housing, and State ownership or regulation of utilities. Hardcover $13.50, Softcover $6.00.

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through the adventures of Blackford Oakes, the latest, *Marco Polo, If You Can,* into the Buckleyesque interpretation of (or rather, fantasy speculation upon) the U-2 flap that gave Nikita Khrushchev a golden chance to embarrass the president of the United States. Or was it all staged by the United States to ease us out of an awkward situation? The book, brand new and thus far the best of Buckley's novels, makes a perfectly delicious case—only three-quarters tongue-in-cheek—for the latter interpretation. You'll get no major plot revelations from me, since everything unfolds so splendidly in the novel. To cheat the reader of the pleasure of discovering the intricacies of Buckley's story would be not only unsporting but unforgivable.

But let me tell you some of the bits and pieces that carry you rapidly through the pages of *Marco Polo.* We meet not only our old friend Blackford Oakes and his associates and lady friends and buddies and other creations of the author, but also a most amazingly organized and calculating Dwight David Eisenhower and a J. Edgar Hoover who has been removed from the pedestal upon which most conservatives reflexively place him. Ike and Hoover, and for that matter several other real people put to Buckley's uses in the book, are of course wholly shaped to Buckley's needs, and they are employed as playfully for the serious purposes of advancing the plot's logic as is Buckley himself employed playfully in an aside: at one point Blackford Oakes settles back to dip into *Up from Liberalism* by, of course, William F. Buckley, Jr.

I don't know if Bill Buckley intends to unleash upon us a major roman à clef one of these days. These Blackford Oakes adventures are not that: when they want to make use of an historical personage they simply use him by name and invent for him whatever is needed for the story. But if a long familiarity with the development of novelists is of any use to me, I think I can safely guess that one of these years we should expect Buckley to give us a large book that abandons Oakes and plays consistently off a cast primarily of real people just ever so cleverly disguised.

For now we have the Oakes books and they're swell. *Marco Polo, If You Can* will please you hugely.

David Brudnoy, a contributing editor of REASON, is a host of a New England-wide radio talk show, critic-at-large of Boston's CBS station, and a syndicated columnist.

Measuring Intelligence—Fact and Fantasy

Straight Talk about Mental Tests.
By Arthur R. Jensen.
New York: The Free Press.
1981. 269 pp. $12.95.

Reviewed by William R. Havender

Probably no other scientific controversy has been so badly misrepresented in the public debate, nor allows arrant fantasy and myth to play such determinant roles, as that surrounding mental tests. Partly, this is because the central issues are technically complex and hard for nonspecialists to grasp; partly, it is because such intricate issues do not lend themselves readily to editorial paraphrase and summary without distortion; and partly, it is due to deliberate efforts at confusion and obfuscation. There is thus a great need for a book that discusses these matters clearly in terms accessible to the educated layman.

Such a book is now at hand, and it is written by a man who stands not only at the top of his profession but also at the center of the controversy. The book is *Straight Talk about Mental Tests,* by Arthur R. Jensen. The questions that constitute the core of the testing brouhaha are here carefully, though simply and clearly, reviewed, including the nature of intelligence as psychologists understand it and why it is socially important, how standardized tests are constructed, what they predict and how validly they do so, the degree of cultural and racial bias in these tests, what is known about environmental determinants of IQ and about raising IQ through specific treatments, the relation of race and social class to IQ, the relative importance of genes and environment to IQ, and the proper and improper uses of mental tests.

Of special interest to the general reader will be the behind-the-scenes discussion of "headline-grabbing" issues of recent years. For instance, a recent, greatly publicized claim by a Ralph Nader–affiliated group asserted that college entry tests are a fraud, since they predict the college grades of admitted students only slightly better than throwing dice would do. The statement is true, but there is a little confidence trick at its heart; admitted students are already a highly selected group whose range of academic ability is much narrower than that of the entire group of applicants. And for making distinctions within this *broader* group, the validity of college entry tests *is* solidly established.

Another item much in the news in the last decade was the so-called Miracle in Milwaukee. This was an attempt to intervene heroically in the cultural environment of selected Milwaukee children who were thought likely to become retarded (being born to ghetto mothers who had already produced one retarded child). These children, from birth until they entered school at age six, were given eight hours of intensive stimulation each weekday to speed their mental development. A comparison group of children, chosen by the same criteria, was reared conventionally.

The results? The early gain was spectacular, nearly 30 points on average, and this is what made news. But the gain did not last. Twenty points of it have vanished now that the children are well along in elementary school. More important, while these children are still above the comparison group in nominal IQ, the two groups show no difference at all in the most important academic task of the early school years, namely, learning to read. It seems that the intensive training succeeded in conveying only the specific skills for taking IQ tests without having any detectable effect on the underlying faculty of general intelligence that is normally signified by IQ and whose cultivation was, of course, the true objective of the program. This sobering follow-up evaluation has not been widely publicized.

A third matter of recent media attention is a California court case (*Larry P. et al.* v. *Wilson Riles*), where the court enjoined the use of standardized mental tests for the placement of black children in classes for the mentally retarded on the basis that the tests are racially biased. The noteworthy fact is that the court, evidently harking to wider political considerations, made this determination *despite* a preponderance of evidence to the contrary. What studies actually show is that the scholastic achievement of black children is just as accurately predicted by IQ tests as in the case of white children; a black with a low IQ has the same problems with scholastic material as a white child with the same low IQ. The court decision, be it noted, is under appeal.

Besides busting some widely propagated media myths, the book corrects many other common misperceptions. For

instance, the charge is often heard that mental tests, since individual scores on them merely reflect cultural upbringing, reinforce the existing socio-cultural class structure. The truth is just the reverse. A study done in England showed that a *greater* proportion of working-class children were selected for college preparatory work when selection was based on IQ and achievement tests than when it depended on grades and teachers' recommendations; the opposite was true for middle- and upper-class children, whose deportment apparently biased the teachers' evaluations in their favor. And in the United States, the paramount role played by mental and achievement tests in forcing open educational opportunities for Jews, Negroes, Asians, and other minorities is a matter of history.

Moreover, social classes do not, as far as IQ is concerned, "breed true"; the correlation between a child's IQ and his parents' social class is a rather low .35 (on a scale of 0 to 1), and more than half of all children move to a different social class from that of their parents. On what basis do they move? It turns out to be related to IQ; bright siblings tend to move upward, slow ones downward. The result is that a person's IQ correlates with his *own* adult social class at a level of .6, which is much higher than to his parents' class. Modern societies, then, are actually characterized by turbulence and flux, not immobility, and mental tests, which can read through social veneers to identify the presence or absence of academic potential, promote rather than hinder this merit-based movement.

Speaking of inheritance, Jensen gives the most lucid explanation of the "heritability" of IQ ever written. Failure to comprehend this basic concept gives rise to many policy confusions, such as the egregiously mistaken belief that high IQ heritability necessarily implies IQ's eternal immutability and hence is cause for inaction and despair, or its inverse, that finding isolated instances where exceptional circumstances do raise IQ—such as Milwaukee's "miracle"—thoroughly invalidates the general finding of high IQ heritability.

Why does all of this matter? Because the efficient allocation of human resources is at least as vital to the functioning of the economy as the allocation of any other resource. The placement test most commonly used in the military, for instance, is the Armed Forces Qualification Test. Studies show that recruits scoring in the lowest third on this aptitude test need two to five times more training trials, and two to six times more prompting to learn basic military tasks than middle- or high-aptitude recruits. Proper placement of recruits is estimated to save more than $400 million per year. An estimate of the savings to the federal government of optimal selection procedures for its four million employees is $16 billion every year. On a national scale, the estimated annual loss in productivity if general ability tests were abandoned for selective purposes would be $80 billion. Clearly, much is at stake.

With the publication of this useful book, there is no longer any excuse for public commentators, to the extent they have professional integrity, to remain ignorant of this matter and to continue to spread misunderstanding.

Bill Havender is a research biochemist at the University of California, Berkeley.

When Liberty Comes to SF

An Enemy of the State.
By F. Paul Wilson.
New York: Doubleday.
1980. 269 pp. $10.95.

Reviewed by Timothy Condon

There are *legions* of science fiction writers, many of them pretty handy with paper and a live typewriter. But too many of them won't consider how future (or past) societies *should* be set up. More often than not they don't know much about economics either, which can be fatal when talking about utopian visions. All of which makes the precious few writers who *do* know what a just society should look like (no, I'm not talking about the bleeding hearts, babbling on about their cheap collectivist visions) all the more valuable.

Well, lemme tell ya people. That group has just been increased by a very important *one.* I should have known it, when his two previous books came out, bursting with rhetoric that guaranteed he knew the difference between a free society and an anthill. Even with his frequent references to the real-world connection between civil and economic freedom, I thought maybe it was just a fluke. It wasn't. Now that his third book has arrived, I've got just one, big question: *Why hasn't someone told me about this guy before now?*

Who knows? Maybe it takes any young writer time to make a name. Well, with the publication of his third science fiction blockbuster, F. Paul Wilson has definitely made such a name for himself. His first two, *Healer* and *Wheels within Wheels,* gave him away: frequent references to the basis of individual freedom in economic freedom; clear expositions on why the state is the enemy of any clear-thinking human being; even some name-dropping, for those just being instructed and who might want to learn more—Ludwig von Mises, for instance, or Milton Friedman; even Lysander Spooner! Wonderful stuff.

Still, nice sensibilities about individual liberties won't get you far if you can't spin a good tale. Wilson can, and his best yet is his third piece—with a title

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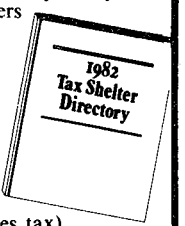

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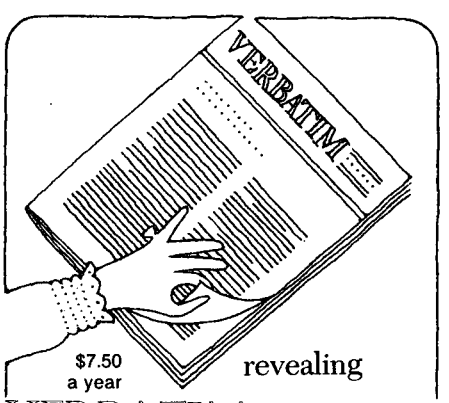

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The Language Quarterly

guaranteed to hook instantly any rational, liberty-loving individual—*An Enemy of the State.* And the story is just about that: the hows, the whys, the wheres. *Why* is one an enemy of the state? Because, as Wilson so aptly quotes Lysander Spooner in the book, "no government, so called, can reasonably be trusted for a moment, or reasonably supposed to have honest purposes in view, any longer than it depends wholly on voluntary support." *How* is one an enemy of the state? "Keep the government poor and you'll keep it off your back," as the book's protagonist, Peter LaNague, explains at one point. "Without the necessary funds, it can't afford to harass you. Give it lots of money and it will find ways to spend it, invariably to your eventual detriment." *Where* does *An Enemy of the State* take place? In a future divided between two statist societies: the Outworld Imperium, consisting of myriad worlds colonized by humans, and the totalitarian, overpopulated Earth, dominated by a one-world government that would like to overthrow and regain the Imperium worlds that broke away centuries before.

Wilson has even come up with a religion that any and every advocate of individual rights could be comfortable and satisfied with, the principles of *Kyfho.* As Adrynna, Peter LaNague's old Kyfho teacher, says, speaking of the impending revolution masterminded by LaNague, "The revolution must be conducted in accordance with the principles of Kyfho if it is to have any real meaning. There must be no bloodshed, no violence unless it is defensive, *no* coercion! To do otherwise is to betray centuries of hardship and struggle."

Indeed, the Kyfhons hold peaceful communities on a violence-wracked Earth, as well as two planets of their own, neither of which deigns to play a part in the schemes of either the Imperium *or* Earth. How have they managed this in the face of rampant statism? By being entirely ready to initiate massive retaliatory force, especially by the warrior-like Eastern Sect Kyfhons. "The motto of Eastern Sect Kyfhons is 'A weapon in every hand, freedom on every side,' " as Peter LaNague explains at one point. "They police their own streets, and have let it be known for centuries that they protect their own. Public temper tantrums . . . are not tolerated on their streets. The word has long been out: Do what you will to your own community, but risk death if you harm ours."

And what does "Kyfho" itself stand for? The meaning of the ancient words are lost to most of those who practice the religion/philosophy, even as they practice the essence of Kyfho: "Keep Your ----ing Hands Off."

F. Paul Wilson has created a framework for a series of books exploring the very meaning of individual freedom in a societal context. All he has to do is write them. And, if his first three are any example, he's got the ability and the drive. Go get 'em, Paul! Your stuff is terrific!

The title of his third book is guaranteed to hook instantly any rational, liberty-loving individual.

Timothy Condon is REASON's tax columnist.

Bringing UFOs Down to Earth

The UFO Verdict: Examining the Evidence.
By Robert Sheaffer.
Buffalo: Prometheus Books.
1981. 242 pp. $15.95.

Reviewed by Armando Simón

A few years ago I made a survey of books on UFOs published since 1947, which revealed an 11-to-1 ratio in favor of the extraterrestrial hypothesis over the skeptical one. Since Robert Sheaffer's *The UFO Verdict* presents the issues from a more down-to-earth viewpoint (and the author's computer-science background is an asset), the book partially corrects that imbalance.

Many of the UFO books that periodically flood the market are as antiscientific as the "No Nukes" groups; in fact, some authors, as Sheaffer points out, go out on both crusades. (Furthermore, many details of sightings reported in the pro-saucer books are deleted or falsified, with insinuations galore.)

It is bad enough when some hack writers come out in print with such an attitude, but it is much worse when, for example, Drs. J. A. Hynek and J. Vallee advocate the ideas of fairies and "alternate realities" as serious postulates or that scientists must suspend scientific procedures in order to cope with the flying saucer phenomenon. If Drs. Floyd Ferris and R. Stadler of *Atlas Shrugged* come to mind, it is with good reason.

Now, this is not to say that anyone who advocates the existence of extraterrestrial life or of the possibility of alien visitation is being antiscientific. The objection is that the pro-saucer advocates are oftentimes uncritical to the point of absurd wishful thinking, and their attacks on scientists for not jumping on the bandwagon are downright *odd* (not to mention the viciousness of their attacks on persons critical of the visitation hypothesis, such as astrophysicist Donald Menzel). Sheaffer cites several instances of such behavior.

As to the book itself, it is well written and, thankfully, does not rehash too many old classic sightings. Instead, recent ones are investigated, including the sighting claimed by Jimmy Carter. A few observations are made on the selectivity of the press in regard to flying-saucer sensationalism, be it the *National Enquirer* or the overrated *Washington Post.*

Sheaffer does a good job of eliminating the logical fallacies offered by believers of obvious hoaxes. He comes up with little-known information about previous sightings that had been overlooked, such as the fact that the Brazilian photographer who had photographed the 1958 Trinidad Island UFO was a specialist in trick photography. And the misperceptions that he routinely points out in several cases have reaffirmed my view that anyone wanting to be a UFO investigator should first take a university course in perception psychology.

Are there any shortcomings in the book? A few. More cases should have been presented. More emphasis should have been given to solutions other than hoaxes and celestial objects (like piezoelectricity, plasma, temperature inversions, and ball lightning; P. Klass's solution to the Exeter incident, for instance, is more convincing than Sheaffer's). Lastly, the pictures in the book—this is the publisher's fault, not Sheaffer's—are of incredibly poor quality; and UFO pictures, as anyone will tell you, are what sell a flying-saucer book,

not the contents.

But all this is nitpicking. The book remains a worthwhile investment and it is hoped that many more similar ones get published—and not just on UFOs. Chances are that this will indeed be the case: the publisher, Prometheus Books, has started a Critiques of the Paranormal Series, headed by Dr. Paul Kurtz, who is connected with the Committee for the Scientific Investigation of Claims of the Paranormal. This committee has exploded the blatant hoaxes of the charlatans von Daniken and Uri Geller. Robert Sheaffer, incidentally, is a member of that organization's UFO subcommittee.

Armando Simón is a research psychologist.

Mandatory Vehicle Inspections Under Fire

Vehicle Safety Inspection Systems: How Effective?
By W. Mark Crain.
Washington, D.C.: American Enterprise Institute. 1980. 70 pp. $4.25 paper.

Reviewed by Brian Summers

It all seems so obvious. Mandatory vehicle inspections mean safer cars. Safer cars mean fewer accidents. Anyone who challenges mandatory vehicle inspection must be a misanthrope.

Or an economist. W. Mark Crain, associate professor of economics at Virginia Polytechnic Institute, compared the accident records of states that have mandatory vehicle inspection programs with those that don't have such programs. He found "no evidence that vehicle inspection systems are effective in reducing highway deaths or accidents." Crain reached this conclusion through statistical analysis. He compared state accident records (death rate, nonfatal injury rate, nonfatal accident rate) with nine variables: (1) the existence and nature of inspection systems, (2) population density, (3) median family income, (4) fuel consumption, (5) federal highways, (6) population age, (7) procedure for driver's license renewal, (8) alcohol consumption, and (9) minimum damage required for reporting an accident. Only the first, the existence and nature of state inspection systems, yielded counterintuitive results.

Crain offers two possible interpretations of these results. First, periodic inspections don't improve the inherent safety characteristics of vehicles. Second, periodic inspections do make vehicles safer, but this potential for improved highway safety is dissipated by adjustments in driver behavior.

The former interpretation is supported by several types of evidence. First, only a small portion of highway accidents—2 to 6 percent—are conclusively attributable to mechanical defects. In addition, no single mechanically related factor stands out as a cause of accidents. Thus, diagnostic attention cannot be concentrated on particular problem areas. Finally, as several studies have shown, the detection rate of real defects is often less than 50 percent.

The role of incentives is particularly important in Crain's analysis. In the absence of mandatory inspection, vehicle owners certainly have incentives for maintaining their vehicles. They also have incentives to seek out inspection stations that ignore borderline defects. Inspectors have incentives to minimize "hassling" and to "discover" nonexistent defects.

Adjustments in driver behavior are difficult to document, but Crain offers two plausible possibilities. The first (drawing on the work of economist Sam Peltzman) is that the perception of safer cars leads to more risk taking by drivers. The second is a belief by drivers that government responsibility for safety maintenance makes cars safer and thus less in need of maintenance attention.

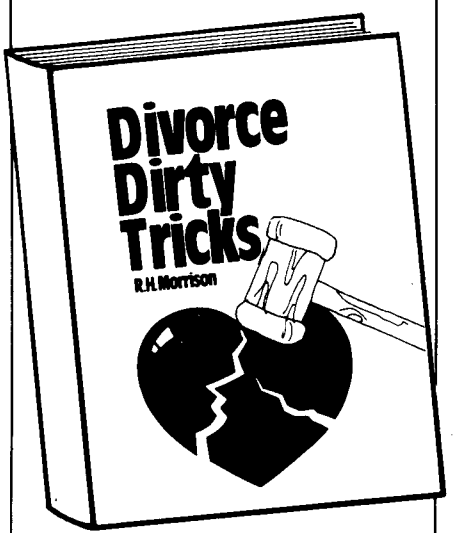
Incentives also play a role in identifying the supporters of mandatory periodic inspection:

> *The theory of economic regulation which stresses the gains to special interests offers useful insights here, a point of particular interest because the theory has been developed primarily in the analysis of economic regulation and has not been applied to social regulation (including consumer-protection regulation). This special interest approach would predict that the primary proponents of a nationally standardized inspection program are those trade associations of industries involved either directly in providing inspections or indirectly in manufacturing and distributing vehicle parts and accessories.*

This, Crain shows, turns out to be the case. The supporters of government regulation are the special-interest beneficiaries, not the general public. Shouldn't that be obvious?

Brian Summers is a member of the staff of the Foundation for Economic Education.

This is no "kiss & make up" book!



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HEALTH &WELFARE

(Continued from p. 62)

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A list of scientific literature on this topic is available through REASON. Send a stamped, self-addressed envelope and ask for H&W references, June. Durk Pearson and Sandy Shaw are consulting scientists and authors.

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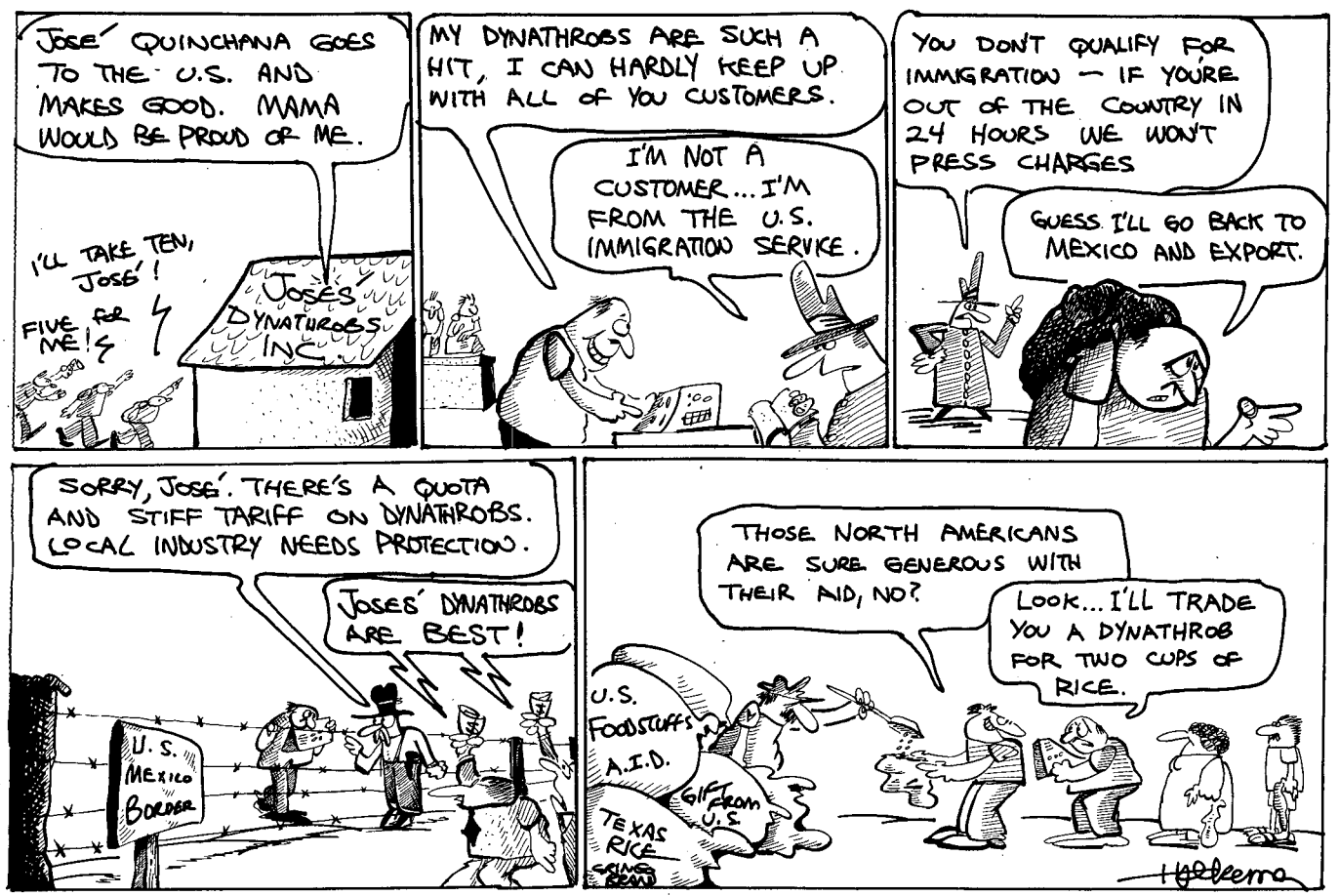
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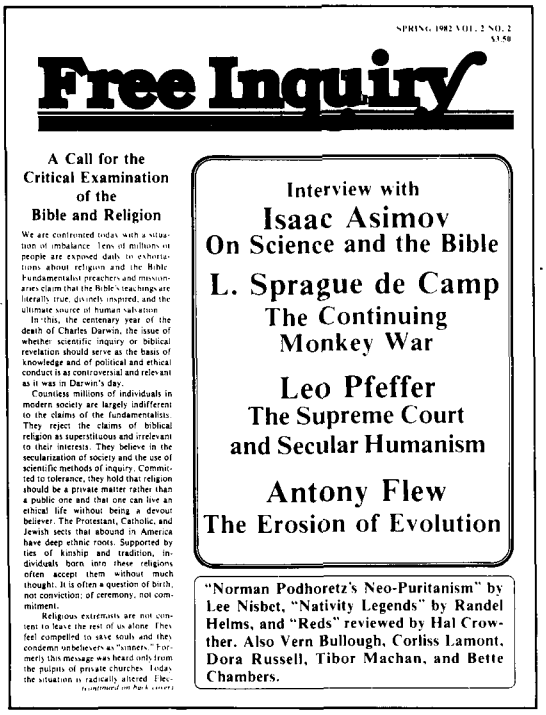

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Free Inquiry

A Call for the Critical Examination of the Bible and Religion

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Religious extremists are not content to leave the rest of us alone. They feel compelled to save souls and they condemn unbelievers as "sinners." Formerly this message was heard only from the pulpits of private churches. Today the situation is radically altered. Elec-

(continued on Back cover)

Interview with
Isaac Asimov
On Science and the Bible

L. Sprague de Camp
The Continuing Monkey War

Leo Pfeffer
The Supreme Court and Secular Humanism

Antony Flew
The Erosion of Evolution

"Norman Podhoretz's Neo-Puritanism" by Lee Nisbet, "Nativity Legends" by Randel Helms, and "Reds" reviewed by Hal Crowther. Also Vern Bullough, Corliss Lamont, Dora Russell, Tibor Machan, and Bette Chambers.

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GOLD & SILVER

7 Questions you should ask before buying...

The individual seeking to purchase gold and silver faces a bewildering array of dealers. Prudence and rationality demand that you carefully evaluate your current or prospective dealer. Whether you have already established a relationship with a precious metals dealer, or are seeking a firm to do business with, you should measure the firm's abilities and character.

Ask yourself the following questions about your current or prospective firm. Consider the abilities and character of R. W. Bradford & Company. Discover whether your interests would be better served by dealing with RWB & Co. If you are seeking a reliable, competitive firm, investigate RWB & Co and its competition.

Consider the following:

1. Price: Are the prices you pay consonant with the size and nature of the transaction? Or do you pay full retail prices from your current dealer? Are exorbitant "commissions" added to the prices quoted?

RWB & Co keep its operation efficient, its overhead trim, and its advertising under control. In ten years of operation, no representative of RWB & Co has ever made an unsolicited sales call. Direct ("junk") mail solicitations are not used. Toll-free phone calls are limited to established RWB & Co clients. These efficiencies are passed on to its clients in the form of lower prices – prices that are the lowest in the precious metals trade.

To make your own comparison, telephone RWB & Co and its competitors after 2:30 pm eastern time, when U.S. bullion markets are closed. Ask for prices on a few specific items. Be sure that all prices include commissions and delivery charges.

2. Delivery: Is safe delivery of the goods you purchased guaranteed? Is delivery frequently delayed for reasons not specified by your current dealer? Are your inquiries about shipments treated with bureaucratic hassle?

RWB & Co offers fast, guaranteed delivery: over 95% of all purchases from RWB & Co are shipped within 8 hours of receipt of payment. Unlike many sales-oriented operations, RWB & Co maintains inventory at levels sufficient so that delays almost never occur. And RWB & Co guarantees safe delivery of all goods sold.

3. Reliability: Does your current dealer have an established track record of smooth operation, efficient delivery and reliability during the massive bear markets as metals have seen during the contractions of 1972, 1975, and late 1980, as well as the bull markets of 1971, 1974 and 1979-80?

RWB & Co has been in business since 1971. It has over ten years experience in the world of precious metals: over ten years of low prices. Over ten years of quoting firm prices every trading day. Over ten years of deliveries made on time. Considering the ease with which firms enter (and leave) the business, ten years is a long time. It is a track record that RWB & Co is proud of: over a decade of satisfied clients.

4. Professionalism: Is the salesman you deal with a professional? Does he have extensive experience in precious metals? Can he answer your questions correctly and concisely? Or does he just push sales to increase his commissions?

RWB & Co is staffed by precious metals professionals – not high pressure salesmen. Its staff is experienced and expert in gold and silver, with backgrounds in economics, numismatics and economic history – not sales. RWB & Co traders average 9 years experience with the firm. And no one on the staff is paid a commission on sales. So when you call RWB & Co you speak with someone who can actually answer your questions in a helpful manner.

5. Service: Are your inquiries answered promptly and correctly? If an order is late, can your dealer advise you quickly the date shipped and registration number? When you write a letter asking a question, is it answered promptly?

RWB & Co doesn't lose you in the shuffle. RWB & Co has purposely controlled its growth so that it can maintain a high level of individual service to its clients. Client inquiries are answered promptly – without bureaucratic hassling or delay.

6. Selection: Does your dealer offer the whole world of precious metals? Or does he limit you to Krugerrands, Maple Leafs, Mexican 50 Pesos, Austria 100 Coronas, U.S. silver coins and silver bullion? Or even fewer items? Does he offer U.S. $20's, British Sovereigns, French 20 Francs, Colombian 5 Pesos, Swiss 20 Francs, and other gold coins heavily traded in other world markets? Does he offer the whole variety of U.S., Canadian, and world silver coins, as well as silver bullion?

RWB & Co offers the widest range of precious metals. In addition to gold bullion coins, RWB & Co buys and sells the whole gamut of U.S. and world gold coins, including gold coins commonly traded on European markets but not widely known in American. And in addition to silver bullion and U.S. silver coins, RWB & Co buys and sells the silver coins of Canada. So you are not limited to the opportunities available amongst the popular trading varieties; you have the whole world of opportunities in physical gold and silver available to you.

7. Bait & Switch: Has your dealer tried to sell you other exotic "investments" like colored gemstones, antique guns, diamonds, porcelain, jojoba beans, rare coins, rare stamps, or other "investments"? Have you ever suspected that he deals in gold and silver only to gain your confidence to attempt to sell you other, higher profit items?

Precious metals is the only business of RWB & Co, not a loss leader to build up a credibility with clients in order to sell other "investments." RWB & Co does not sell colored gemstones, diamonds, rare porcelain, jojoba beans, rare coin portfolios, antique guns, or rare stamps.

About R. W. Bradford & Company. . . .

R. W. Bradford & Company is the successor to Liberty Coin Service, a pioneer in the precious metals brokerage field. It was founded by R. W. Bradford in 1971 to specialize in the sale of hard assets to investors. It regularly advertised in libertarian periodicals since its inception in 1971. From 1972 to 1981 it was operated in Lansing, Michigan, in conjunction with a retail precious metals and coin store.

Its first advertisement promised, "LCS hopes to prosper by offering the small and medium lot investor first quality coins and services at prices as low as those available to larger and more sophisticated investors." During the ensuing decade, the firm has prospered by handling transactions from 2 figures to 6 figures for its clients, ranging from college students to corporation presidents.

On July 1, 1981, Bradford liquidated the retail operations and moved the business to Port Townsend, Washington, where the business has returned to dealing exclusively in its original specialty of precious metals brokerage. "The name was changed," Bradford says, "to emphasize our nature as a private business. We stand on our record as a profit-making enterprise without hiding behind an institutional name or limited liability corporate structure. During the past decade we have grown from a modest brokerage firm to an efficient operation with clients in nearly every state and a dozen foreign countries. Our record speaks for itself."

In addition to dealing with whole array of precious metals, the firm publishes a newsletter about precious metals, "Analysis & Outlook," now in its eleventh year of publication.

For information about the purchase and sale of gold and silver, call RWB & Co at 206/385-5097 or fill out and return the coupon below.

R.W. Bradford & Co
P. O. Box 1167
Port Townsend,
Washington 98368
(206) 385-5097

R. W. Bradford & Co P.O. Box 1167 Port Townsend, WA 98368

Please send me information about your firm, your way of doing business, and about precious metals, along with a trial subscription to your newsletter.

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